

The Commodities Feed: Big crude oil stock draw

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Energy

Oil got a boost higher yesterday (although the market has failed to hold onto this strength this morning), following the EIA reporting that US crude oil inventories fell by 10.61MMbbls over the last week, much larger than what the market was expecting, as well as the largest draw seen so far this year.

Crude oil imports fell by 795Mbbls/d over the week, taking inflows to the lowest level seen since mid-April. Imports from Saudi Arabia averaged 303Mbbls/d over the week, down 158Mbbls/d WoW, and basically takes flows back to levels seen prior to the Saudis flooding the market in April.

On the export side, crude oil outflows increased by 218Mbbls/d over the week to average 3.21MMbbls/d. Finally what also helped with the bigger than expected stock drawdown, was the fact that refiners in the country increased their utilisation rates by 1.6 percentage points, leaving rates at just short of 80%, and the highest levels seen since late March. Stronger refinery runs, saw crude inputs increase by 389Mbbls/d WoW. The drawdown in crude oil was constructive, but there are still some concerns over the product's market.

Refined products saw further builds over the week, with gasoline and distillate fuel oil inventories increasing by 654Mbbbls and 503Mbbbls respectively. While implied demand over the week picked up for almost the entire products complex, the recovery is clearly taking longer than anticipated. US gasoline demand remains stuck below 9MMbbbls/d, around 1MMbbbls/d below the demand levels we usually see at this time of the year. Meanwhile, distillate stocks are still at the highest levels seen since 1982.

Metals

The World Gold Council (WGC) in its latest update showed that global gold demand fell 6% YoY to 2,076t in the first half of the year, as the Covid-19 pandemic resulted in reduced consumer demand, whilst elevated prices have not helped either. Total bar and coin investments also dropped 17% YoY to 397t in 1H20. Meanwhile, total jewellery demand contracted 46% YoY to 572t in the first half due to lockdowns and reduced consumer spending.

However, the standout remains gold ETFs, with inflows continuing their uptrend in 2Q20. Total inflows in 1H20 reached a record 734t, which exceeds the annual record of 646t in 2009. Looking at supply, global gold production fell 6% YoY to 2,192t in 1H20, as both mine production and recycling were impacted by Covid-19 related restrictions.

Turning to copper mine supply, First Quantum Minerals has reduced its 2020 production guidance for its Cobre Panama copper project by 105kt, after adjusting for Covid-19 related disruptions during 1H20. The company now expects Cobre Panama copper output to be around 180-200kt this year, compared to a previous estimate of 285-310kt. However, production guidance at its other copper operations remains unchanged.

Meanwhile, Lundin Mining has also trimmed its 2020 copper production guidance at its Candelaria mine in Chile, with the company now expecting copper concentrate production to be in the range of 251-274kt for the year, down from the previous estimate of 264-293kt in April. Lastly, Southern Copper lowered its 2020 production guidance and now expects copper output to be around 997kt for the year, meanwhile, its output over 2Q20 declined 1.3% YoY to total 253kt.

Finally, iron ore's most active SGX contract extended gains to touch US\$109/t yesterday, despite receding supply risks and rising Chinese port inventories. A quick snap back in China's construction sector has been one of the major forces in driving the recovery in metal prices since 2Q20. Meanwhile, comments from Rio Tinto's CEO would have also helped. According to him, not only is the demand for steel and iron ore in China "very, very strong" but also "order books are full".

Investors continue to seek positive signals amid multiple efforts from the government to keep the economic recovery on track. Meanwhile, China's National Development and Reform Commission (NDRC), recently announced that the country is planning to launch another 150 major water conservancy projects, with a total investment of 1.29 trillion yuan (\$184 billion), to enhance the country's flood and drought relief capabilities.

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