

The Commodities Feed: Brent back above US\$40/bbl

Your daily roundup of commodity news and ING views



Energy

ICE Brent managed to creep back above the US\$40/bbl level yesterday, with equities rebounding and the USD resuming its weakening trend. However, fundamentally, not much has changed in the oil market. There continues to be concern over the state of the physical market, with values weakening and increasing difficulty in shifting West African cargoes - likely due to a lack of Chinese buying recently.

The EIA released its Short Term Energy Outlook yesterday and made some slight revisions to US oil supply forecasts for the remainder of this year and 2021. The EIA now expects that US crude oil output will shrink by 860Mbbbls/d YoY, leaving production to average 11.39MMbbbls/d. This is slightly less than the 11.27MMbbbls/d they were forecasting last month. For 2021, They expect output to decline by 310Mbbbls/d YoY to average 11.08MMbbbls/d.

The US industry does not appear that optimistic on the outlook for US oil output, with EOG Resources yesterday saying that they expect US oil output to decline for years to come, and adding that they believe we have already seen peak US oil output. Reinforcing this view was news yesterday that Enterprise Products Partners will abandon its 450Mbbbls/d pipeline project which was set to run from the Permian Basin to Houston. However, with the drop in US oil output, which is unlikely to make a quick recovery, this was capacity that the industry did not need.

Finally, the API overnight reported that US crude oil inventories increased by 2.97MMbbls over the last week, and is the likely reason oil is trading lower in Asia this morning. If the EIA confirms a crude oil build later today, it would be the first US stock build since mid-July. On the product side, gasoline stocks fell by a significant 6.89MMbbls, while distillate fuel oil stocks increased by 2.29MMbbls.

Metals

The latest data from Antaika show that China's monthly refined zinc and zinc alloy production rose 2.8% YoY to 450kt in August as domestic smelters resumed production post maintenance. Cumulative output over the first 8 months of the year is now up 2.1% YoY to total 3.4mt. The group expects production to rise above 470kt in September as smelters continue to ramp up production. Yuan-denominated treatment charges (TCs) for Chinese domestic concentrate have recovered over the last month, whilst the import TCs in the spot market remain low due to tight supply after a number of disruptions. Rising TCs in the domestic market suggest that Chinese mines could have boosted production, having previously struggled. For Lead, refined output grew 4% YoY to 423kt in August. However, the group expects lead production to fall this month due to the implementation of new solid waste laws in the nation.

Turning to aluminium, and India has begun an anti-dumping probe into the imports of certain flat-rolled products originating from China. There have been a rising number of trade cases this year, which is adding to the gloomy outlook for Chinese aluminium semis exports. In the latest preliminary trade data from China Customs, Chinese exports of unwrought aluminium and semis in August increased to 395k tonnes, up by 5.6% MoM. However, over the first 8 months of the year exports have fallen by 20.4% YoY. Despite weak exports of aluminium semis, we tend to believe that stronger exports of end-use products that contain aluminium could have helped offset the demand losses in semis exports.

Agriculture

CBOT soybean and corn prices were marginally lower yesterday after more than a week of gains, as the market awaits the USDA's monthly WASDE report on Friday. The weekly crop progress report earlier in the week showed stabilising crop conditions in the US after a sharp deterioration over the previous few weeks due to the weather. Ethanol producers in Brazil have suggested a 3-month extension to duty-free imports for US ethanol after the earlier tariff-free trade quota expired last month. The extension would allow the US to export an additional 187.5mn litres (c.49.5mn gallons) of ethanol to Brazil without tariffs. US exports of ethanol to Brazil were negligible over July and August after exporters exhausted the tariff-free quota over the first half of the year.

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