

The Commodities Feed: China Covid risks linger

Your daily roundup of commodities news and ING views



Mass Covid testing continues in Shanghai

Energy

The oil market has come under pressure in the Asian morning session today. ICE Brent traded back below US\$100/bbl at times this morning. There is growing concern over the Covid situation in China, with it appearing as though there is no end in sight for the lockdowns that we have been seeing. Shanghai reported another record amount of daily cases on Saturday. Clearly, the increase in cases and strong enforcement of restrictions leaves further downside risk to Chinese oil demand. Weaker domestic demand suggests we should see refiners cutting operating rates, whilst there is also the potential that we see a pick-up in refined product exports from China in the short term. This is a change, given that prior to lockdowns, there were reports that authorities had asked state refiners not to export diesel or gasoline in April due to uncertainty over the Russia-Ukraine war.

There are also indications that the market is looking less tight. The physical market has seen further weakness recently, whilst the prompt ICE Brent time spread has come under significant pressure in recent weeks. The Covid situation in China will likely have helped to ease some concerns over a tighter market, whilst the record release of oil from strategic petroleum reserves will increase supply in the coming months. In addition, the market is getting a better idea of the full impact of self-sanctioning on Russian oil supply and it seems as though it is not as severe as

initially feared. Although, this could change very quickly, particularly if the situation in Ukraine deteriorates further.

The latest data from Baker Hughes shows that the US oil rig count increased by 13 over the last week to total 546. This is the largest weekly increase since early February. The stronger price environment and pressure from the government to increase output should continue to see the rig count ticking higher. However, the pace of growth is more difficult to judge, given the capital discipline that we have seen from the US industry over the last couple of years.

It is a fairly busy week for the oil market in terms of data releases. On Tuesday, OPEC will release its monthly oil market report. Their previous report saw little changes despite the Russia-Ukraine war, and so there is the potential for more significant changes this time around. In addition, the Covid situation in China should also be reflected in their numbers. This will be followed by the EIA's Short Term Energy Outlook on the same day. Wednesday will then see the IEA release its monthly oil market report, whilst we will also get some Chinese trade data for March.

Metals

More evidence is emerging from China that metals demand is under pressure due to Covid-related restrictions. Reports show that some copper and aluminium semi-fabricators have been forced to scale back operations due to raw material shortages and inventory build-ups in final products. It is becoming increasingly hard to move goods freely within the country due to various road blockages or testing requirements for truck drivers. In addition, the demand outlook from downstream sectors remains dampened, especially in the construction sector.

Total reportable stocks (aluminium, zinc) saw a moderate pickup last week. In contrast, the markets should have seen inventory drawdowns during the traditionally stronger demand season at this time of the year. As the short-term demand outlook remains murky, supply growth of some refined metals could be weak as well, as there are reports that some copper and zinc smelters have opted to carry out maintenance works this month. This would lead to weak production in April and help to mitigate the risk of a build-up of sulfuric acid (a major by-product) inventories at smelters. However, aluminium is an exception, as production continues to ramp up in southwestern China. The pace of capacity restarts has turned out to be quicker than the market was expecting, yet monthly production may not return to comparable levels of the same period of last year until the end of 2Q22.

As for London markets, base metals prices were largely range-bound last week, with a lack of new catalysts, whilst uncertainty still dominates. Low inventories continue to lend strong support to prices. Meanwhile, liquidity remained subdued across LME metals over the last 30 days. On average, nickel volumes are only 30% of the 2021 average, falling by nearly 80% from pre-debacle levels based on the 3M contract on the LME Select trading. Aluminium and zinc saw similar drops of more than 30% from February, whilst copper saw a decline of around 27%.

Agriculture

The USDA's WASDE report was mildly constructive for wheat and soybean and neutral for corn. The USDA revised 2021/22 global ending stocks for wheat from 281.5mt to 278.4mt on the back of stronger demand from India (+4.4mt to 107.9mt) and lower exports from the European Union (down 3.5mt to 34mt). The market was expecting a number closer to around 281.2mt. For the US market, the USDA reduced domestic wheat demand and export estimates by around 10m bushels

and 15m bushels respectively, leading to a downside revision in ending stocks estimates by around 25m bushels.

The USDA lowered its estimate for global soybean ending stocks by around 0.4mt to 89.6mt for 2021/22 on the back of lower supplies from Brazil (-2mt) and Paraguay (-0.9mt). Global output estimates were revised down by 3.1mt to 350.7mt, whilst global demand was lowered by around 1.8mt to 361.9mt- mostly due to China. For the US, export estimates were increased by around 25m bushels to 2.12b bushels, which led to ending stocks declining by around 25m bushels to 260m bushels.

For corn, the USDA increased global production estimates by around 4.3mt to 1,210.5mt on the back of better supply prospects from Brazil (+2mt), the European Union (+0.7mt) and South East Asia (+0.7mt). The agency also increased global corn ending stocks for 2021/22 by 4.5mt to 305.5mt. However, a large part of this increase in inventories was driven by Ukraine, where export estimates were cut by around 4.5mt to 23mt, given the issues of shipping during the ongoing war. As for the US corn balance, the USDA left it unchanged with the inventory estimates standing at around 1.44b bushels at the end of 2021/22.

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