

The Commodities Feed: China demand concerns weigh on oil

Your daily roundup of commodities news and ING views



Energy

Oil has been unable to escape the broader risk-off move across markets. Equities and commodities took a hit on Friday. ICE Brent settled more than 1.5% lower on the day and this weakness has continued in early morning trading in Asia today. China continues to be a key concern for the oil market. The Covid situation in China appears to be moving in the wrong direction with Beijing seeing a spike in cases over the weekend. China's zero-covid policy means that oil demand will be taking a hit as authorities try to bring the outbreak under control. Refiners have already cut operating rates significantly due to lower demand. There are reports that state refiner, Sinopec, cut rates at two refiners in Shanghai by around 18% over the first 20 days of April. Weaker demand and growing refined product stocks could offer some relief to the tightness in global refined product markets, particularly when it comes to middle distillates. Though in order to see a meaningful increase in export supply, we would likely need to see the government issue further export quotas to refiners.

Middle distillate inventories remain tight in all regions. In NW Europe, gasoil stocks held in ARA stand at 1.44mt, down 24kt over the week, which is the lowest level seen at this stage of the year since 2008. While in Singapore, middle distillate stocks stand at 9MMbbls and have increased by a

sizeable 1.41MMbbls over the last week. However, inventories still remain below the 5-year average. The tightness in middle distillates is reflected in the strength of gasoil cracks, which are sending a very clear signal to refiners to maximise their middle distillate yields.

Libya is set to restart oil production over the next few days at fields which were previously shut due to protests. Libyan oil output had fallen by about 500Mbbbls/d, with both the Sharara and El Feel fields shut.

Metals

Growing headwinds saw industrial metals sold off on Friday along with other risk assets. The USDCNH also saw its largest rally since March 2020 on Friday which reinforced the bearish outlook for China's demand with a weaker yuan hurting purchasing power.

While most base metals fell on Friday, zinc managed to close almost flat as the metal is still on high alert and risks facing a squeeze. On-warrant stocks for zinc fell by 11.3kt on Friday (a third straight day of declines) to 34kt (lowest since November 2019). The majority of the drawdown came from warehouses in Singapore and Malaysia. Total exchange inventories for zinc have fallen for 21 consecutive days now with overall stocks standing at 103.3kt - the lowest level since June 2020.

On the Covid front, little progress has been made in Shanghai in terms of lockdowns of residents although there are reports of reduced restrictions in logistics in the surrounding provinces. However, cases are still rising elsewhere, such as in the capital city, Beijing, which saw rising infections over the weekend. Authorities are on high alert and residents have rushed to stockpile food and daily necessities. The Covid containment measures in China have started to show their impact in the latest survey data. According to Shanghai Metals Market (SMM), operating rates of major aluminium semi fabricators fell by 3.3% to 64.5% (lowest in almost two months) last week. The decline came from reduced orders due to Covid-related lockdowns in eastern China, whilst raw materials supply also remained disrupted.

Lastly, the latest CFTC data shows that speculators cut their net long position in COMEX copper, selling 3,293 lots over the last reporting week, and leaving them with a net long of 25,393 lots as of last Tuesday. As for precious metals, speculators trimmed their net longs in COMEX gold by 19,697, to leave them with a net long of 124,967 lots.

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