The Commodities Feed: China diesel exports near record levels

Your daily roundup of commodity news and ING views

Energy

Oil prices have started the week under pressure, with ICE Brent trading down around 0.5% at time of writing. A firmer USD this morning is weighing somewhat on the complex. Nuclear talks over the weekend continued, and further discussions will take place throughout the week. Talks so far have been constructive according to the US, although they have said sanctions will not be removed until there is confidence that Iran will significantly reduce its nuclear activity. Iran has said that there are still large differences with the US, however, it has still started to work on the draft text in order to try revive the nuclear deal. Any breakthrough in these talks which leads to the lifting of sanctions will likely hit sentiment in the short term. However, the medium term outlook remains constructive, with the oil market set to continue tightening.

Trade data out of China on Sunday showed that Chinese gasoline exports in March totalled 1.56mt, down 14.6% YoY. This decline is more a reflection of the strong exports we saw in March last year, when refiners increased export sales due to weak domestic demand related to Covid-19 lockdowns. However, YTD gasoline exports have performed strongly, increasing by a little over 12% YoY to total 5.09mt. As for diesel exports, these fell by 0.6% YoY to total 2.81mt in March, leaving the number not too far off from the record 2.83mt of diesel exported in the same month last year.

The growth in Chinese refining capacity, along with stronger exports of refined products, is making life more difficult for refiners in Asia, particularly given the demand hit seen over the last year. This is reflected in a number of refiners in the region announcing plans to shut or convert facilities to import terminals.

Sticking with refined products, and there is further noise around the Russian government potentially putting in place a temporary ban on some fuel exports, with worries over rising prices. If such action is taken, it is not exactly clear which refined products could face the temporary ban. However, with Russia a key exporter of refined products, it is a development worth keeping an eye on. Last year Russia exported 5.83mt of gasoline and 53.2mt of diesel.

The latest data from Baker Hughes shows that the US oil rig count increased by 7 over the last week to total 344, the largest amount of active oil rigs since April last year. However, the count is still well below the 683 active rigs seen in mid-March 2020. Completion activity in the US also continues to pick up, with Primary Vision's frac spread count increasing by 12 over the last week to 220, the highest level since March last year. With WTI prices stabilising somewhat and trading in the low US$60s, drilling and completion activity is likely to continue trending higher through the year, especially given the more constructive price outlook over the latter part of the year.

Finally, latest positioning data shows that speculators increased their net long in ICE Brent by 22,654 lots over the last reporting week, leaving them with a net long of 292,155 lots as of last Tuesday. The bulk of this increase was driven by fresh longs, with 15,916 lots of fresh buying over the period, while the rest was driven by short covering.

Agriculture

In its weekly report, the Buenos Aires Grains Exchange increased its corn production estimate for Argentina to 46mt for 2020/21, compared to its previous estimate of 45mt. The exchange reported that 14.2% of the corn harvest was completed as of 15 April compared to 12% over the preceding week. Recent rains in Argentina appears to be helping crop prospects in the country. Meanwhile, the exchange left its soybean production estimates unchanged for the year at 43mt, with 7.2% of the harvest completed to date.

Turning to sugar, and the latest data from the Indian Sugar Mills Association shows that India's sugar output increased 17% YoY to 29.1mt through until 15th April. The Association also reported that the country has exported around 2.5mt of sugar this season until the end of March with another 0.8mt likely to be shipped in April. India has an export quota of around 6mt for the current season ending in September and at the current rate, it seems likely that the country will meet or at least get close to the export target. Meanwhile, in a report released on Friday, India's Meteorological Department forecast a normal monsoon over the coming months, which should be helpful for sugar production over the next season as well.

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