The Commodities Feed: China iron ore imports decline

Your daily roundup of commodity news and ING views

Iron ore processing at a plant in Brazil

Energy

ICE Brent has been trading marginally soft in the Asian morning trade today after hitting a six-month high of US$49.25/bbl on Friday following OPEC+'s agreement to extend the current output cut agreement, with a marginal relaxation of 500Mbbls/d starting January 2021. The ease in production cuts is smaller than originally planned and hence remains supportive for the oil market as it will continue to weigh on existing inventories. The ICE Brent forward curve continues to show a tight market in the short-term with the 1M/2M spread trading at a backwardation of US$0.06/bbl. The latest Commitment of Traders report shows that money managers remain bullish on crude oil, increasing their net longs in ICE Brent by 28,274 lots over the last week and leaving them with net longs of 245,864 lots. The increase in net longs was mainly driven by short-covering, with gross shorts falling by 22,489 lots over the week.

Saudi Arabia has increased oil prices for its Asian buyers as optimism around a vaccine and stronger imports from China helped the prospects for demand. Saudi Aramco has offered its Arab Light grade to Asian buyers at a premium of US$0.3/bbl for January delivery compared to a discount of US$0.5/bbl for December deliveries. Saudi Arabia has kept prices largely unchanged for North-West Europe for January deliveries while lowering prices for US buyers by around US$0.3/bbl as demand from the US remains soft.

Metals

On Monday, China released its latest trade data for November. Iron ore imports fell slightly to 98.15mt (-8.1% month-on-month) in November, but total imports during the first 11 months still rose by 10.9% year-on-year. Exports of steel products saw a moderate recovery of 4.4mt compared to 4mt in October. Copper concentrate imports grew to 1.83mt (19.88mt, -0.9%YoY) compared to 1.69mt in October. Imports of copper cathode and semi-finished products fell to 561.3kt last month compared to 618.1kt in October, while total imports year-to-date still grew by 38.7% YoY to 6.17mt. Unwrought aluminium and aluminium semis imports came in at 424kt and total units of home appliances grew by 12.6% YoY. In the downstream demand sectors, exports of home appliance units grew by 11% in November while total exports had increased by 12.6% YoY during Jan-Nov.

As for the latest CFTC data, this shows that speculators increased their net long position in COMEX copper; speculators bought 5,729 lots over the last reporting week, leaving them with a net long of 85,740 lots as of last Tuesday. For precious metals, speculators increased their net long in COMEX gold by 2,974 lots to leave them with a net long of 107,653 lots while the net long in silver increased by 1,386 lots.

Lastly, Singapore iron ore futures extended their surge to over US$140/tonne (the highest since the exchange started trading) and China Dalian exchange iron ore prompt contract prices jumped to the highest level (CNY980/tonne) since the contract launched in 2013. Signs of weaker seaborn market shipments along with strong demand amid winter restocking have been driving the bull run. The latest data from SteelHome shows that total iron ore port inventories fell by 1.6mt over the week for a third consecutive week to 128.7mt as of 4 December. Along with that, slowing iron ore exports from Australia and Vale, which reduced output guidance recently also gave a boost to raw material prices. Meanwhile, Chinese officials are concerned with the price surge. An official at the China Iron and Steel Association (CISA) said a recent rally in prices of imported iron ore is detached from the fundamentals, and regulators should intervene as soon as possible, according to the state media Xinhua News Agency.

Agriculture

Both soybean and corn traded soft over the last week as late rains in Latin America continue to improve supply prospects from Brazil and Argentina whilst money managers booked profits on higher prices. CFTC data shows that managed money net longs in CBOT soybean dropped to an 11-week low of 194,683 lots (down 9,127 lots week-on-week) over the last week. Speculative net longs in CBOT corn were also trimmed by 16,966 lots over the week. On the other hand, physical demand for soybean continues to be strong, with China reporting healthy imports for November. Trade data from China's Customs shows that soybean imports into the country increased 15.8% YoY to 9.59mt in November 2020 as Beijing stepped up purchases of US soybean before the end of the year. Year-to-date imports of soybean are up 17.5% YoY to 92.8mt.

Looking forward, the USDA is scheduled to release its monthly WASDE report on Thursday with expectations that the agency could further revise down ending stocks estimates for both corn and soybean for the current marketing year. A Bloomberg survey shows that the estimates for US soybean ending stocks for 2020/21 could be revised down from 190m bushels to 169m bushels mainly due to higher exports and subdued crops. The survey also expects the USDA to revise down its estimates for corn ending stocks to 1.69bn bushels compared to last month's 1.70bn bushels.

Globally, both soybean and corn ending stocks estimates could be revised lower from 86.5mt to 85.1mt and from 291.4mt to 288.7mt, respectively.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com