

The Commodities Feed: China oil imports edge lower

Your daily roundup of commodity news and ING views



Energy

ICE Brent saw a second consecutive week of gains last week, with the market settling not too far off from US\$72/bbl, whilst NYMEX WTI briefly hit US\$70/bbl in early morning trading in Asia today, before coming under some pressure. The strength in the market last week comes despite noise from Russian oil producers that they would expect OPEC+ to agree on increasing output further when they meet in July. Clearly the market remains focused on demand indicators, which continue to improve. The data from the EIA last week showed that 4-week average implied gasoline demand in the US hit its highest level since March 2020, and only the second week since March last year, where the 4 week average crossed 9MMbbls/d.

The latest positioning data shows that speculators increased their net long in ICE Brent by 8,830 lots over the last reporting week, to leave them with a net long of 267,282 lots as of last Tuesday. This increase was driven by fresh longs entering the market. Given the move we have seen in the oil market since Tuesday, it is likely that this net long is somewhat larger at the moment.

China trade data out this morning shows that crude oil imports into China over the first five months of the year totaled 221mt, up 2.3% YoY. However, looking at imports over just May, they come in at around 9.69MMbbls/d, which is down from the 9.86MMbbls/d imported in April, and 14.6% down YoY. This suggests that Chinese refiners are reluctant to import at these higher prices, and instead prefer to draw down inventories. We will need to wait for industrial output data later in

the month to see if this really is the case, but if it is, it would be the second month in a row, where we have seen Chinese inventories edge lower. Clearly, if we see Chinese refiners taking a step back from imports, this would be a bearish development for the market.

Finally, it's set to be a busy week in terms of data releases for the oil market. Tuesday will see the EIA release its Short Term Energy Outlook, which will include US production forecasts. On Thursday, OPEC will release its monthly report, which will include OPEC production numbers for May, as well as the group's outlook for the global market for the remainder of the year. This will be followed by the IEA's monthly oil market report on Friday, which will also include their views on the outlook for the market over the remainder of the year. In addition, Iranian nuclear talks will continue later this week, and it appears the market is taking the view that it's less likely we see a deal and a quick lifting of sanctions.

Metals

Metals rebounded after a weaker than expected US non-farm payroll data, pushing back against speculation about tapering, which has been a key contributor to recent market weakness. On Friday, the weaker dollar boosted the overall metals complex, with aluminium leading the way. Supply disruptions in Yunnan and the destocking trend continue to provide support for the short-term outlook for aluminium. Meanwhile, the latest update from Nornickel on Friday stated that the Taimyrsky nickel and copper mine in Siberia has resumed operations and is operating at 40% of its capacity starting this month. On the nickel side, it is worth paying attention to the rising Covid-19 cases from Indonesia, as a further escalation may add to risks of exports delays.

In the precious metals space, the retreat in USD and Treasury yields saw gold return to US\$1,890/oz level on Friday. Meanwhile, gold imports in India fell sharply last month, as the steep resurgence in Covid-19 cases forced many states in the nation to impose lockdowns, which resulted in lower consumer demand. Gold imports declined to 11.4mt last month, compared to 70.3mt in April. However, it was higher than the 1.3mt imported in the same month last year, when India was under a nationwide lockdown.

The latest trade data from China out this morning shows that iron ore imports over May totaled 89.79mt, down almost 9% MoM, but up a little over 3% YoY. Elsewhere, unwrought copper and copper product imports fell 8% MoM to just below 446kt, whilst copper concentrate imports increased by 1.3% MoM to total 1.95mt in May.

Finally, the latest CFTC data shows that speculators decreased their net long position in COMEX copper for a fourth consecutive week, selling 6,316 lots over the last reporting week, and leaving them with a net long of 27,615 lots (lowest since June last year) as of last Tuesday.

Agriculture

The International Sugar Organization has revised down its sugar deficit estimates for 2020/21 to 3.1mt compared to its previous estimates of around 4.7mt on a marginal increase in production estimates and a slowdown in consumption due to a second wave of COVID-19 cases. For next season, the organization expects that the sugar market will remain in short supply, with a deficit of around 2.7mt, as dry weather in Brazil risks impacting sugar cane production in the country.

Finally, China trade data shows that soybean imports over May totaled 9.6mt, up 2.4% YoY and almost 29% higher MoM. This is a period where you do usually see a seasonal pick up in imports,

with supply from Brazil.

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