

# The Commodities Feed: China oil inventories fall

Your daily roundup of commodity news and ING views



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## Energy

The oil market continues to tread water. OPEC+ has made it clear that the group will stick to its cautious approach of gradually increasing supply. Consequently, the market is waiting for any developments from the US administration that may ease prices. If action is to be taken, the most likely route would be a release from the Strategic Petroleum Reserve (SPR). That said, the EIA's recent Short Term Energy Outlook showed expectations for an improvement in the supply situation from 2022, so it is not clear whether the Biden administration will still feel that it is necessary to take action.

The EIA released its latest Drilling Productivity Report yesterday, which estimated that US shale oil production will increase by 85Mbbbls/d in December to average 8.23MMbbbls/d. Unsurprisingly the bulk of this expected increase will be driven by the Permian region. The report also showed that drilled but uncompleted wells (DUCs) continued to decline over October, falling by 222 to just 5,104. The number of DUCs has fallen by 3,792 since May last year and the level of DUC inventory is now at its lowest level since December 2014. US producers have relied on these DUCs to sustain production levels. However, the low levels now seen suggest that producers will have to focus

more on new drilling to maintain and drive output levels higher.

The latest output data from China shows that domestic crude oil production averaged 3.87MMbbls/d in October, down from 4.06MMbbls/d in the previous month. Refinery operations over the month also increased, despite concern over the impact of power rationing. Domestic refiners processed 13.78MMbbls/d of crude oil, up from 13.70MMbbls/d in September. As a result of stronger refinery throughput, lower domestic output and reduced crude oil imports, China saw fairly large draws in crude oil inventories. Our estimates show that Chinese crude oil inventories declined by a little more than 1MMbbls/d over October.

On the calendar for today, the IEA will release its monthly oil market report, where the agency will share its outlook for the remainder of this year and 2022.

## Metals

Industrial metals edged lower yesterday with LME aluminium leading the declines, despite strong Chinese industrial production and retail sales numbers for last month. The metals complex was pressured mainly by the underperforming real estate sector in China, as declines in prices, sales and property investments widened.

As for copper, the cash/3M spread came under further pressure yesterday, trading down to a backwardation of US\$32.50/t. This is significantly weaker than the highs of more than US\$1,000/t seen in October and US\$438/t at the start of this month. The weakening in the spread corresponds to an increase in on-warrant copper stocks in LME warehouses. Available stocks have increased from a multi-decade low of a little more than 14kt in mid-October to a little over 50kt as of yesterday.

The latest data from China's National Bureau of Statistics shows that primary aluminium output halted its five straight months of decline and grew 1.8% MoM to 3.13mt in October, as the power crunch eased slightly. However, monthly output was still below levels seen last year. Cumulatively, total output rose 6.5% YoY to 32.3mt in the first ten months of the year. Among other metals, China's crude steel output fell 23% YoY and 2.9% MoM to 71.6mt last month, as domestic production restrictions continue to dominate the supply side. Year-to-date steel production remained almost flat at 877mt in the first ten months of the year.

## Agriculture

Russia's Federal Center of Quality and Safety Assurance for Grain and Grain Products reported that wheat exports fell 16% YoY to 16.6mt as of Nov 11 for the current marketing season. Data from Russia's Agriculture ministry showed that wheat output is down around 11% YoY to 78.1mt so far in 2021/22. The end of the harvesting season is approaching, which has weighed on shipments. Another factor weighing on exports is higher taxes, which have increased along with prices on account of the floating duty structure introduced earlier in the year. On the demand side, reports that Iraq is likely to issue tenders for 500kt of wheat by December or early 2022 have helped sentiment. Tight supplies combined with healthy demand for the grain is likely to keep wheat prices supported in the immediate term.

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