

The Commodities Feed: China oil release

Your daily roundup of commodity news and ING views



Energy

The oil market came under renewed pressure yesterday and this weakness has continued in early morning trading today. ICE Brent settled almost 1.6% lower on the day, after confirmation from the Chinese government that it had tapped into its state oil reserves in order to ease some of the pressure that we have seen in raw material prices. This announcement comes after earlier reports that the government auctioned off barrels back in July from reserves, although there was no official confirmation. It would appear that this latest announcement confirms that release, while it also seems that we could see further auctions. Releasing from state reserves is not great for sentiment, given that one would expect it to weigh on crude oil import demand.

The EIA's weekly inventory report yesterday reflected the impact of Hurricane Ida. US crude oil inventories declined by 1.53MMbbls over the last reporting week. This was driven by an estimated 1.5MMbbls/d reduction in crude oil output, which exceeds the production losses seen in February when output was hit by freezing weather conditions. On the trade side, it's no surprise that there were also large declines. Crude oil imports fell by 530Mbbls/d WoW, whilst exports were 698Mbbls/d lower over the week. The crude oil draw would have been larger had it not been for a large reduction in refinery activity. Run rates fell by 9.4 percentage points to 81.9% (the lowest level since March), which saw crude oil inputs falling by 1.64MMbbls/d. Lower refinery activity meant that gasoline and distillate fuel oil stocks fell by 7.22MMbbls and 3.14MMbbls respectively. This leaves total US gasoline inventories below 220MMbbls, which is the lowest stock level since November 2019. If we look regionally, gasoline inventories on the East Coast are at their lowest levels since 2017.

The impact from Hurricane Ida will continue to linger for some time. The latest data from the Bureau of Safety and Environmental Enforcement shows that 1.39MMbbls/d of US offshore Gulf of Mexico (GoM) production remains shut in, which is equivalent to 76.48% of US GoM output. Total crude oil production losses as a result of Hurricane Ida now amount to a little over 22MMbbls, and with output still struggling to recover, this will grow. Shell has declared force majeure on some US cargoes, highlighting the struggle for producers to restart offshore production.

Metals

The metals complex was well supported yesterday. LME nickel led the complex higher, settling more than 2.4% higher on the day and trading to levels last seen in 2014. The market is looking increasingly tight as LME inventories continue to edge lower. Total stocks in LME sheds stand at a little over 181kt, down from around 265kt back in April. While SHFE exchange inventories stood at just 6kt as of last week, compared to over 30kt a year earlier. LME aluminium prices broke above US\$2,800/t yesterday, which saw the market trade to its highest levels since 2008. There continues to be concern over potential disruption to bauxite supply, following the coup in Guinea last weekend. This has only added to worries for a market that has already been faced with plenty of supply uncertainty for much of the year.

The latest data from Shanghai Metals Market (SMM) shows that China's copper cathode production fell 1.3% MoM to 819kt in August due to ongoing smelter maintenance and power curtailments. Two smelters in Guanxi province (Fangchenggang and Wuzhou) reduced their production by almost 15% last month amid power curtailments. Output in Shandong and Henan was also impacted by power usage restrictions. Among other metals, Chinese primary aluminium production rose marginally by 1% YoY to 3.2mt last month (although daily average production was lower MoM), while refined nickel output rose 19% MoM to stand at 13.7kt in August as smelters in Gansu resumed production.

Agriculture

In its final production report for the 2020/21 season, Brazil's agriculture agency, CONAB has again revised down its corn and soybean production estimates. The agency now estimates Brazil's corn production to have dropped to 85.7mt in 2020/21 compared to its earlier estimate of 86.7mt and the previous year's output of 102.6mt. Soybean production estimates were also revised down marginally from 136mt to 135.9mt, but output is still significantly higher than the 124.8mt produced in 2019/20. Looking ahead, the USDA is scheduled to release its monthly WASDE report later today and expectations are that the agency could increase its US corn and soybean production estimates on the back of favourable weather.

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