

The Commodities Feed: China refining activity picks up

Your daily roundup of commodity news and ING views



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Energy

Oil prices managed to settle higher yesterday, with ICE Brent continuing to gravitate around US\$40/bbl. There were reports that both Saudi Arabia and Iraq would cut oil supply to buyers in Asia and Europe in July, given the OPEC+ agreement. For this month, Iraq has said that it will cut oil exports by 15% to average around 2.8MMbbls/d. Iraq is one of the countries under pressure at the moment to improve their compliance with the supply cut deal, given that during May, their compliance was just 42%.

Yesterday the EIA released its Drilling Productivity report, where unsurprisingly they estimate that US shale production will fall over July by 93Mbbbls/d to average 7.63MMbbls/d. The number of drilled but uncompleted wells (DUCs) in the US continues to decline, falling by 33 over May to total 7,591. Looking ahead, with oil prices having recovered from their lows, and drilling activity having come to a standstill, we are likely to see DUC inventory declining at a quicker pace, in order for producers to try maintain output.

Finally, data out of China yesterday showed that oil refineries in May increased throughput to the

highest levels so far this year, as the country returns to normality after the Covid-19 outbreak earlier in the year. On a daily basis, refineries processed 13.69MMbbls/d of crude oil, up 4.1% MoM. Although cumulatively, processing rates are still down 1% YoY over the first 5 months of the year.

Metals

Base metals remained under pressure on Monday, with concerns of a possible second wave of Covid-19 infections. However, recovering Chinese industrial production gave some hope of a gradual improvement in economic conditions. The latest data shows that primary aluminium output in China rose by 0.4% MoM to 2.98mt in May. Cumulative production over the first five months rose by 2.1% YoY to total 14.8mt. Domestic smelters in China have been adding capacity and restarting idled capacity with the recent price rebound. In terms of steel, crude steel output surged to record highs in May as domestic mills ramped up production levels supported by better margins and recovering industrial activity. Production gained 8.5% MoM and 4.2% YoY to total 92mt last month. Steel output over the first 5 months of the year reached 412mt, up 1.9% YoY.

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