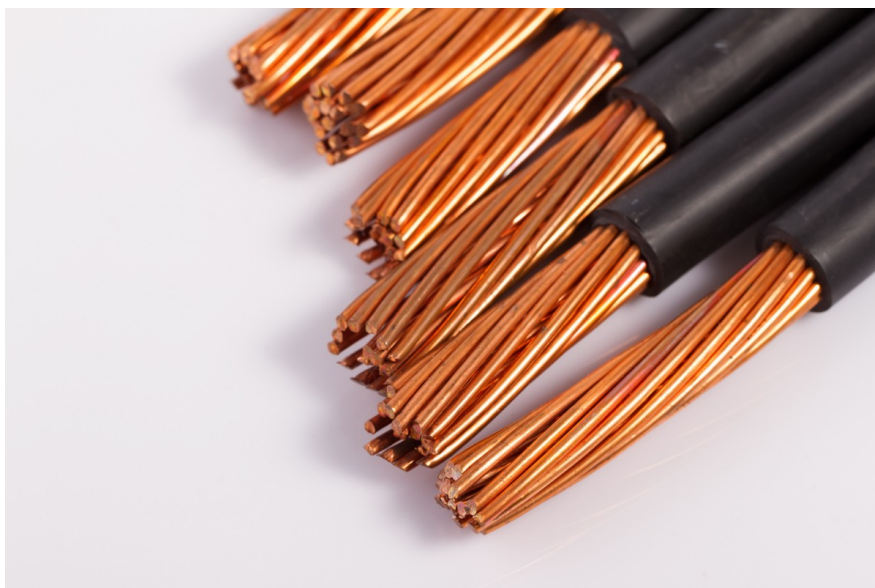


The Commodities Feed: Copper spreads spike

Your daily roundup of commodity news and ING views



Metals

Copper had a pause in its recent rally yesterday, retreating to a session low of US\$10,142/tonne. Weaker GDP growth from China weighed on the market. The record squeeze in LME copper spreads saw 6,900 tonnes of gains in warrants from Asia. However, spreads still indicate persistent nearby tightness, with the Oct 21-Nov 21 spread surging to over US\$1,010/tonne. Zinc also saw prices retreat in London, but they are still hovering around a 14-year high. However, LME 3M aluminium prices saw further strength. Prices spiked to an intraday high of US\$3,230/tonne, though it pared some gains at the close. The light metal's price is only slightly shy of its historical record of US\$3,380/tonne seen in 2008, but the cash contract saw a record high of US\$4,200/tonne back in June 1988.

Russia is set to cancel the 15% tax on exports of aluminium alloy, while the tax on unwrought aluminium is set to remain in place. Earlier this year, Russia introduced a 15% tax on several aluminium products, including unwrought aluminium and some value-added products, effective from 1 August to 31 December this year. The introduction of the tax did lead to a further rise in premia in the European market. The export tax on ferrosilicon will also be cut from 15% to 5% next year.

Aluminium production costs in China are set to rise significantly amid the ongoing power crunch, especially after the recently announced power market reform. The 'base + floating' now allow the on-grid price to fluctuate more than 20% on top of the base price for the nation's energy-intensive sectors. According to a Bloomberg report, Guangxi province, one of the major aluminium production hubs in China, is set to slap a 50% premium on electricity prices for those energy-intensive industries. Aluminium smelting is one of the industries that could be faced with a hike in power prices. It also said that those power users without term-supply contracts would have to pay the premium from this month, and charges with term contracts will need to be renegotiated according to the new power price mechanism.

Energy

ICE Brent briefly broke above US\$86/bbl yesterday, hitting its highest levels since 2018. However, the market was unable to hold onto this strength, with Brent retreating back towards US\$84/bbl. This weakness has continued in early morning trading today. A fall in US industrial production in September would have not helped sentiment, along with weaker GDP numbers from China.

The latest Drilling Productivity Report shows that the EIA expects that US shale oil production will increase by an estimated 77Mbbls/d in November to 8.22MMbbls/d. The bulk of this increase is expected in the Permian region. Production in the Permian in November is forecast to average 4.89MMbbls/d, which would be the highest production level since March 2020. The EIA also reported that the number of drilled but uncompleted wells (DUCs) fell by 241 over the month to total 5,385 by the end of September. The number of DUCs has fallen by a significant 3,549 since peaking in June last year at 8,934. The decline in DUC inventory has helped to sustain US production. However, we are getting to levels where it is difficult to rely on DUCs to sustain output and so the need for a pickup in drilling activity.

Agriculture

Trade data from China's Customs shows that corn imports remained very strong last month, increasing 227% YoY to 3.53mt in September, while year-to-date imports stand at 24.93mt, up 275% YoY. Relative underperformance of corn compared to wheat over the past few months has been supportive for corn demand from the domestic animal feedstock industry as farmers switch back to corn. Excessive wet weather over the past few weeks has also weighed on domestic supply sentiment and remains supportive for corn imports. Wheat imports were soft last month, falling 40% YoY to 640kt; although YTD wheat imports are still up by around 25% YoY to total 7.59mt. Stronger global wheat prices and lower exports from Russia and the US has weighed on China's imports. Finally, sugar imports increased 61% YoY to total 870kt, while YTD imports are up 38% YoY to total 3.84mt.

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