

The Commodities Feed: Demand fears push crude lower

Your daily roundup of commodity news and ING views



Energy

Oil markets tumbled yesterday, with worries over demand lingering. The heads of a number of trading houses spoke at the FT Commodities Global Summit, and several of them shared a fairly pessimistic view on the demand recovery for oil, with expectations that it will take anywhere between 1.5 and 2 years for demand to reach pre-Covid-19 levels. The resurgence in Covid-19 cases more recently in some regions, is clearly not great for market sentiment.

Whilst demand is an issue for the market, the supply side of the equation is not helping either. We have written quite a bit recently about Libyan supply making a return to the market. But we are also seeing supply edging higher from some members of the OPEC+ deal. According to data from CDU-TEK, Russia produced 9.93MMbbls/d in the first 28 days of September, which is up marginally from 9.87MMbbls/d in August. These numbers include crude oil and condensate, while under the OPEC+ deal, cuts are just for crude oil production. In the next few days, we should also start seeing preliminary production numbers for OPEC members for September, and it will be interesting to see if producers have listened to Saudi calls for stronger compliance, along with a check on how compensatory cuts for some are going.

Finally, the API overnight reported that US crude oil inventories fell by 831Mbbbls over the last week, which was a bit different from the 1MMbbbls build the market was expecting. On the products side, gasoline inventories increased by 1.62MMbbbls, while distillates were more constructive, with stocks falling by 3.42MMbbbls.

Metals

The industrial metals complex traded within a fairly narrow range yesterday, with subdued volumes. In contrast, precious metals managed to extend gains on the back of a weaker USD. Looking to the week ahead, expect little news from China, with the country on a week-long holiday starting tomorrow.

LME copper saw another large inflow of inventories, with exchange stocks increasing by 33.2kt yesterday. The majority of the increase took place once again in Europe, with the bulk seen in Rotterdam, along with some inflows into Bilbao in Spain. Yesterday members of the China Smelters Purchase Team (CPST) raised the floor levels of 4Q20 copper treatment charges by 9.4% QoQ to US\$58/t, with the expectation of improving concentrate supply in the near future. The treatment charges were set at US\$53/t in 3Q20 due to the lower concentrate availability and stood at US\$66/t in the same quarter last year.

As for aluminium, the latest data from the Japan Aluminium Association showed that the country's shipments of aluminium rolled products declined by 13% YoY in August, the 13th consecutive month of YoY declines. Meanwhile, shipments of aluminium sheets and extrusion products also fell. Elsewhere, the US Aluminum Association said yesterday that it had filed a new petition seeking anti-dumping duties for imports of aluminium foil coming from five countries, including Armenia, Brazil, Oman, Russia, and Turkey. While the US put tariffs on Chinese foil back in 2018, it claimed that imports of aluminium foil from the above five countries are filling the void left by China.

Agriculture

Media reports suggest that Argentina may announce temporary export duty cuts for some products including soybeans, in order to increase USD inflow into the country. Soybean exports/sales from Argentina have been slower this season to date on the back of higher competition from the US/Brazil, along with a volatile Peso. A tariff cut will be helpful to boost the competitiveness of Argentine soybeans, as well as increasing incentives for farmers to draw down inventories and ship excess soybeans.

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