The Commodities Feed: Druzhba flows resume

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Energy

The weaker than expected US CPI print yesterday, along with the weaker US dollar provided a boost to risk assets, including oil, with Brent settling more than 1.1% up on the day. The release has seen the market reassess the degree to which the Fed may hike in September, although our US economist still believes the case for a 75bp hike is strong.

However, the strength seen in the market yesterday has not carried through into early morning trading today, with Brent coming under some renewed pressure. The market has taken some further comfort from the restart of oil flows along the southern route of the Druzhba pipeline after Hungary's MOL Group agreed to pay the transit fee to Ukraine. However, the fee paid apparently only covers flows to Slovakia and Hungary (where MOL has refinery operations), and not the Czech Republic.

In addition, the EIA's weekly release reported that US commercial crude oil inventories increased by 5.46MMbbls over the last week, which was very different from the roughly 1MMbbls decline the market was expecting. However, when taking into consideration SPR releases, the total US crude build was a much more modest 160Mbbls. Whilst refiners increased utilisation rates by 3.3 percentage points over the week, lower crude oil exports helped with the inventory build. US crude oil exports fell by 1.4MMbbls/d to 2.11MMbbls/d over the week- the lowest weekly export number since January. These lower exports come despite the large WTI/Brent discount that we have seen.

A more supportive factor of the report was the refined product side, where US gasoline inventories declined by 4.98MMbbls over the week. Stronger gasoline exports would have helped, however, a pick-up in domestic demand was the key driver, with implied demand increasing by 582Mbbls/day week-on-week. While a large increase, demand is still below the five-year average. This suggests that prices are leading to some level of demand destruction.

On the agenda for today, both the IEA and OPEC will be releasing their latest monthly market reports, which will give their latest views on the supply/demand outlook for the remainder of this year and next year.

Metals

The lower-than-expected inflation print from the US and a weaker USD proved supportive for the metals complex. LME nickel led the gains amongst base metals, rallying by more than 4%, whilst LME copper settled around 1.3% higher.

The latest survey from Shanghai Metals Market shows that refined copper production in China fell 2.5% month-on-month to 840kt in July, with domestic smelters under maintenance. Ongoing maintenance severely impacted output from Jinchuan, Nanguo and Chifeng Jintong Copper. However, output was still 1.1% higher year-on-year. Among other metals, aluminium production rose 6.7% YoY to 3.5mt. Cumulative primary aluminium output rose 1.4% YoY to total 23mt in the first seven months of the year. China's refined zinc output fell 7.6% YoY to 478kt over the month due to production curbs and maintenance at some smelters in Shaanxi and Gansu.

Renewed concerns over rising Covid-19 cases in some locations in China continue to threaten the demand recovery for metals. In the latest move, Chinese officials announced a three-day lockdown in Yiwu city in Zhejiang province, a major manufacturing and export hub.

Agriculture

The latest fortnightly report from UNICA shows that sugar production in Brazil improved further over the last reporting period on the back of drier weather, although cumulative production remained below last season's levels due to a delayed start of the crushing season. UNICA reported that sugar cane crushing in Center-South Brazil increased 4.3% YoY to 48.9mt over 2H July, whilst cumulative crushing so far this season is down 7.4% YoY to total 283mt. Sugar production increased 8.4% YoY to 3.3mt, with around 47.8% of cane allocated to sugar production. However, cumulative sugar output is still down 13% YoY, to total around 16mt.

According to the UN, 12 ships with around 370kt of grains have departed from Ukraine to date under the Black Sea Initiative agreement between Russia and Ukraine, which allows Ukraine to export grain from three ports - Pivdennyi, Odesa and Chornomorsk. The pace of exports is slowly picking up, although it remains well below levels seen last year. Data from Ukrainian Customs shows that total grain shipments have dropped around 52% YoY to 2.2mt in the 2022/23 season so far. Ukraine aims to increase exports to around 3mt per month from these three ports over the coming weeks.

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