

The Commodities Feed: IEA sees a tighter market

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Oil prices have sold off aggressively

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Energy

Oil prices received a boost yesterday, with ICE Brent settling almost 1.8% higher, following the release of the IEA's latest oil market report. The agency estimates that global oil demand surged by 3.2MMbbls/d in June to 96.8MMbbls/d, while also warning that crude oil inventories could see their largest drawdowns in at least a decade over 3Q21, given the OPEC+ stalemate. The IEA left their demand growth estimate unchanged for 2021 at 5.4MMbbls/d, while revising 2022 demand growth down by 100Mbbls/d to 3MMbbls/d. However, the recent spread of Covid-19 in several countries is a downside risk. The call on OPEC+ supply is estimated at 42.8MMbbls/d in 3Q21 and 44.1MMbbls/d in 4Q21, which compares to June production of 40.9MMbbls/d. Clearly the IEA report was supportive, with it highlighting the potential for significant tightness in the market if OPEC+ does not increase supply.

The latest trade data from China was less supportive, with it showing that crude oil imports over the first 6 months of the year totalled 260.66mt (10.5MMbbls/d), down 3% YoY. Lower imports should not be too much of a surprise, with refiners preferring to draw down inventories they built up last year, rather than importing at higher price levels we have seen recently. Crude oil imports

in June averaged 9.8MMbbls/d, up 1% MoM, but down 25% YoY. However, admittedly, June last year was a record month for oil imports, with them averaging 12.99MMbbls/d.

Overnight the API released latest inventory numbers, which showed that US crude oil inventories declined by 4.1MMbbls over the last week. If confirmed by the EIA later today, it would be the seventh consecutive week of inventories draws. Crude stocks at Cushing also continue to fall, with inventories at the WTI delivery hub declining by 1.59MMbbls. On the product side, API numbers showed that gasoline inventories declined by 1.54MMbbls/d, whilst distillate fuel oil inventories grew by 3.7MMbbls.

Metals

China trade data and the US CPI only brought limited volatility to the market. The base metals complex remains largely subdued amid dollar strength, except for aluminium and tin, which extended gains. Comments from Chinese policymakers are still downplaying the recent RRR cut and its impact on a broader market liquidity shift, as Premier Li Keqiang reiterated yesterday that China should keep its macro policy stable and refrain from flooding the economy with stimulus. Meanwhile, once again, he vowed to take 'comprehensive measures against commodity price pressure' without revealing further details. Signals on the steel side remain unclear, although focus appears to be on the supply side, namely the widespread output curbs, which continues to see ShFE rebar and HRC climb. So far, there seems to be only verbal orders instead of written notices being passed to major steel mills asking them to trim crude steel production based on 2020 levels.

The LME released its off-warrant data (two-month lag) yesterday, showing a significant drop in aluminium off-warrant stocks, with them falling by 140kt to 870kt at the end of May. Despite lagged data, it still provides some insight into the distribution of aluminium stocks geographically. It seems that the stock drawdowns seen in the US market resonates with soaring premiums. Meanwhile, stocks also fell in Europe, although by a more moderate 6kt. With the large drawdown from the US market, the dominance of inventory concentration only grew larger for Asian locations from 80% to 85%. The fact that the aluminium supply chain seems to be finding it difficult to deliver the metal to the right place at the right time only fuels the cross-regional premium dislocation.

Unlike aluminium, significant off-warrant copper stocks are now sitting in European warehouses (78%), and they fell by 16kt to 46kt in May. However, the drawdown from Europe was partly offset by an 8.2kt rise in Asia, resulting in an overall decline of 8.2kt in LME off-warrant stocks (total of 59.1kt at the end of May). The rest of base metals generally saw small gains, with lead stocks rising 4.4kt to 8kt mainly, whilst zinc stocks increased by 3.3kt to 77kt.

Agriculture

Trade data from China's Customs shows that corn imports into the country increased to a record high of around 3.6mt in June. Cumulative imports have increased by 318.5% YoY to 15.3mt over the first half of 2021. Customs data also shows that soybean imports into China reached 10.7mt in June, the highest monthly number seen so far in 2021. While year-to-date imports increased 8.7% YoY to 49mt over the first half of 2021. Stronger demand for animal feedstock has been supportive for corn and soybeans. Looking ahead, imports could soften over the third quarter of the year as weaker pork prices over the past few weeks will keep pressure on higher-priced grains demand with farmers likely to switch to cheaper alternatives.

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