The Commodities Feed: Iron ore surge

Your daily roundup of commodity news and ING views

Metals

Exuberance in the metals complex has taken copper to uncharted waters, with LME 3M copper hitting a fresh high of US$10,747.5/t, whilst aluminium prices briefly traded above US$2,600/t, the highest levels since April 2018.

As for China production, the latest SMM survey shows that China's copper cathode production rose 7.3% YoY and 2% MoM to 878kt in April. Among other metals, Chinese primary aluminium production rose 9.9% YoY to 3.25mt last month. For the first four months of the year, output rose 8.6% YoY to a total of 12.9mt. The group said that refined nickel output remained almost flat to stand at 13kt last month. Similarly, refined zinc output also remained largely unchanged from the prior month; however, it rose 4% YoY to 499kt in April. On a year-to-date basis, zinc production rose 4.25% to total 2mt.

Turning to bulks, and iron ore prices in Singapore and China's Dalian Exchange hit all-time highs yesterday, with iron ore June futures on SGX jumping at one stage 10%, trading to a high of US$226/t. However, the market has already given back a lot of these gains, and this morning is trading back down at around the US$215/t level. It's hard to pinpoint a single specific reason for yesterday's big move, but most market participants believe the surge was a speculative move. Optimism that central banks will retain supportive policies, and that steel production in China will remain robust (given the attractive margins on offer for mills) despite the ongoing production curbs, continues to prove constructive for the iron ore market. In addition, the suspension of economic dialogue between China and Australia has heightened the risks of supply and contributed to the recent surge in iron ore prices, given China's huge dependency on iron ore imports from Australia (roughly accounts for 61%).

The spike in raw material prices forced nearly 100 steelmakers, including leading producers such as Hebei Iron & Steel Group and Shandong Iron & Steel Group to lift their offer prices for steel products on Monday. However, the move has raised concerns over the impact on a range of downstream industries, especially for smaller manufacturers who cannot stomach higher prices.

Meanwhile, as per the latest statement from the National Development and Reform Commission (NDRC), China's state asset regulator and provincial level working groups should complete a self-check by 15th May on the implementation of policies on steel-capacity cuts. In addition, authorities have also planned to conduct on-site inspections in June and July. Against this backdrop, ShFE rebar futures rose for a fifth consecutive session and hit a record above CNY6,000/t whilst HRC prices jumped 5.4% yesterday.

Energy

Refined product markets do not seem overly concerned about the disruption to the Colonial pipeline, with prices settling only marginally higher yesterday. The pipeline is set to start up gradually over the coming days, and the company expects operations to be largely restored by the end of this week. This is still likely to lead to some tightness in gasoline on the East Coast, with inventories in the region currently sitting below the 5-year average. We will likely see increased flows of seaborne cargoes into the East Coast in order to help with this tightness. Tanker rates from Europe to the US East Coast have reportedly jumped by 26% already. As for the US Gulf Coast (where the pipeline originates from), refiners will be hoping that pipeline operations resume by the end of this week. Failure to do so would mean that refiners would likely have to start cutting run rates, with a key outlet point for refined products shut. Gasoline inventories on the US Gulf Coast are already above the 5-year average, and it is very likely that these would have built significantly over the last few days.

Looking ahead to data releases today, OPEC will publish its monthly oil market report, which will include April production numbers for the group, along with their latest outlook on the market. This will be followed by the EIA's Short Term Energy Outlook, which will include US oil production forecasts. In last month's report, the EIA forecast that US oil output will fall by a little more than 280Mbbls/d YoY to average a little under 11.04MMbbls/d in 2020. As for 2021, the EIA expected that output will return to annual growth, increasing by around 825Mbbls/d to average 11.86MMbbls/d.

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