The Commodities Feed: Large distillate draws

Your daily roundup of commodity news and ING views

Energy

Oil has come under pressure despite a fairly constructive EIA report yesterday, with large stock drawdowns for both crude oil and refined products. Crude oil inventories fell by 3.82MMbbls over the last week, as a result of production in the US Gulf of Mexico having to shut in due to Hurricane Delta. Crude oil output is estimated to have fallen by 500Mbbls/d over the week, and this more than offset the 276Mbbls/d decline in crude oil inputs for refineries over the week. Trade numbers were also affected by storm activity, with crude oil imports falling by 446Mbbls/d over the week, while exports fell by 524Mbbls/d. Looking ahead to next week's report, data should still reflect the impact from Hurricane Delta, with some offshore production still yet to return.

Meanwhile on the refined products side, gasoline inventories fell by 1.63MMbbls over the week, whilst the big move was in distillate fuel oil, with stocks falling by 7.25MMbbls, the largest weekly decline since 2003, and also taking total distillate stocks to below 165MMbbls- the lowest levels seen since May. A combination of lower refinery run rates, improved domestic consumption and stronger exports over the week, were key in the distillate draw, and surprisingly there was a fairly muted response from heating oil cracks.

Finally, Libya continues to increase output, with Bloomberg reporting that the country is now pumping around 500Mbbls/d. The largest oilfield in the country, Sharara is reportedly producing around 110Mbbls/d, following the lifting of force majeure last weekend. Earlier reports suggested that Sharara would produce back at its capacity of around 300Mbbls/d within 10 days of restarting. Libya is clearly a factor, which has and could continue to weigh on the market, if output returns to the more than 1MMbbls/d it was pumping prior to the export blockade earlier this year.

Metals

Fears and hopes saw base metal market moves. It was under pressure most of yesterday's trading session due to dollar strength amid surging Covid-19 cases in parts of Europe, and new lockdown measures, which weighed on risk sentiment. However, the market bounced later in the session, potentially buoyed by rekindled hopes for an agreement on additional US fiscal stimulus. US jobless claims data yesterday hit their highest level since late August, emboldening calls for additional fiscal stimulus.

In copper, labour-related talks at the Candelaria mine remain unsolved, and the latest is that there is still the risk of strike action starting next week. Meanwhile, it is reported that Europe's largest copper smelter, Aurubis will keep the copper premium unchanged at US$96/tonne next year for their European clients. There are press reports that Codelco is also set to keep next year's premium unchanged at US$98/t.

Agriculture

CBOT wheat prices continued their uptrend, rallying 3.6% yesterday to reach a five-year high of US$6.2/bu as dry weather in the US and Russia weighed on supply estimates. The USDA's weekly drought report shows that nearly 41% of the winter wheat crop is exposed to drought conditions, compared to 36% in the preceding week. Similarly, Russia has been witnessing dry weather, especially in Southern Russia. Meanwhile, demand from some importing countries, including China, Pakistan and Egypt has been stronger. China's wheat imports have increased 137% YoY over the first eight months of 2020, and expectations for the rest of the year remain strong as China aims to increase state reserves of wheat, along with healthy demand from consumers.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com