The Commodities Feed: Libya disruptions continue

Your daily roundup of commodity news and ING views

Energy

Oil came under pressure on Friday, with worries growing over what new Covid-19 related restrictions in parts of China mean for oil demand. The delayed weekly EIA report only added further pressure, showing that US crude oil inventories increased by 4.35MMbbls over the last week, while the market was expecting a draw. The build was driven largely by a fall in crude oil exports, which declined by 760Mbbls/d. Refiners increased their utilisation rates by 0.5 percentage points, taking them to 82.5%, the highest we have seen since March. On the product side, gasoline stocks fell by 259Mbbls, thanks to a rebound in implied demand, whilst distillates fuel oil inventories increased by 457Mbbls.

Iraq has said that it will produce 3.6MMbbls/d of oil over January and February. If they achieve that, it will be well below their 3.86MMbbl/s production level under the OPEC+ deal. These deeper cuts are to compensate for the overproduction we saw from Iraq over much of last year. If Iraq manages to reduce output to these levels, it would be the lowest output we have seen from them since 2015. However, given Iraq's record of falling short with production cuts, there is no guarantee that they will meet this target.

Finally, having fixed a leak along a pipeline to the Es Sider export terminal, Libya is seeing some more disruptions, with guards stopping exports from Es Sider, Ras Lanuf, and Hariga ports due to disputes about pay. Until recently, Libya has seen an exceptional recovery in oil production, hitting more than 1.2MMbbls/d in December, up from less than 100Mbbls/d in August.

Metals

The metals complex remained largely under pressure, with a strengthening USD and continued Covid-19 fears. Rising cases from some cities in China have led to increased restrictions, which is hurting risk sentiment. And with the Chinese New Year holidays scheduled next month, China will witness a seasonal fall in demand for metals, which may cap any significant upside in prices in the near term.

Hopes for fresh stimulus in the US are also fading with rising opposition, which is capping inflation expectations. As a result, gold has come under pressure, with spot prices falling for a second straight day on Friday. Meanwhile, total known ETF holdings for gold remained flat, to total 107.2moz, whilst ETF holdings for silver expanded for a third straight day, reaching a fresh record of 912.4moz. The latest CFTC data shows that speculators reduced their net long position in COMEX gold marginally by 274 lots over the last reporting week, leaving them with a net long of 104,996 lots as of last Tuesday.

Agriculture

Helpful weather in Brazil and Argentina pushed CBOT soybeans and corn down by 7.4% and 5.8% respectively over the last week, as speculative longs liquidated. Data from CFTC show that money managers reduced their net long position by 14,587 lots over the week reporting week, leaving them with a net long position of 151,898 lots as of last Tuesday. For corn, CFTC data showed that the speculative net long declined by 25,219 lots over the last week, the first drop in 5-weeks after longs built-up around 124k lots over the preceding four weeks. Speculative net longs for both soybeans and corn are still significantly higher than the 5-year average and reflect the risk of further liquidation if optimism on supply prospects continues.

Finally, the USDA reported a recovery in sales for both soybeans and corn last week. Net sales of US soybeans increased to 2.65mt over the last week, compared to 1.2mt in the previous week, with China purchasing around 1.2mt of US soybeans last week. Net sales of corn increased marginally from 1.44mt to 1.48mt, with Mexico and Japan the largest buyers.

Author

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