

The Commodities Feed: Libyan oil output disrupted

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Energy

Having only started to bring production back online at the Sharara oilfield in Libya over the weekend, production has reportedly already been shut down for the second time within 24 hours, with an armed group forcing the field to bring production to a stop once again. The Sharara oil field is Libya's largest, with a capacity of 300Mbbbls/d. The National Oil Corporation had hoped that output at the field would have returned to normal within 90 days. However, latest developments clearly highlight that there will be no certainty over Libyan output in the coming months, which is likely to remain volatile - something that the market has got used to over the years.

The API released inventory numbers yesterday, which showed that US crude oil inventories increased by 8.42MMbbls, very different from the small drawdown in stocks that the market was expecting. Although, Cushing saw yet another drawdown in stock, with inventories at the WTI delivery hub falling by 2.29MMbbls. On the products side, the API numbers showed that gasoline inventories fell by 2.91MMbbls, while distillate fuel-oil inventories grew by 4.27MMbbls. If the EIA later today reports a build in distillate stocks, it would be the tenth consecutive week of increases. Distillate stocks in the US are already at their highest levels since 2010. In fact, middle distillate

stocks are at fairly high levels across most regions in the world, limiting upside to middle distillate cracks in the near term.

Finally, the EIA published its latest Short Term Energy Outlook yesterday, where they revised lower their forecast for US oil production in 2020 to 11.57MMbbls/d, compared to their previous forecast of 11.69MMbbls/d. They also revised lower their 2021 forecast from 10.9MMbbls/d to 10.84MMbbls/d. The revisions lower come despite some US producers starting to bring back shut-in production, following the more recent strength in the market. The further declines in output seem to reflect the collapse in drilling activity, with the US oil rig count falling by 70% since mid-March.

Metals

Copper continues to be the stand-out within the base metals complex, touching an intra-day high of US\$5,781/tonne yesterday, a level last seen in mid-February. Aluminium closed largely unchanged, while exchange inventories increased by another 15.5kt yesterday, pushing total LME stocks to a 3-year high of 1.54mt. Around 0.6mt of aluminium has been delivered into LME warehouses since March.

The latest LME Commitment of Traders Report released yesterday, shows that the non-risk reducing net position from funds and other financial institutions has seen bullish bets increasing across base metals. Being a lagging indicator, this reflects a broader return of risk appetite to industrial metals over the last two weeks.

Finally, in ferrous metals, Chinese demand for lower-quality iron ore has been relatively strong since the start of the second quarter of the year. The quality spread (66% premium over 58% iron ore) has dropped to US\$10/t, compared to a peak of around US\$29/t in April. However, risks around Brazilian iron ore supply, along with steel capacity cuts in Tangshan could support the quality premium over the coming weeks.

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