The Commodities Feed: Libyan supply disruptions

Your daily roundup of commodities news and ING views

Energy

The oil market remains well supported, managing to settle higher for the fourth consecutive day yesterday. The key catalyst for the most recent strength is the supply disruptions from Libya. Libya's largest oil field, the 300Mbbls/d Sharara field and the 65Mbbls/d El Feel field have been shut due to protestors near the site calling for the current Prime Minister to resign. There are reports that Libyan output has fallen by more than 500Mbbls/d and there is the risk that we see further supply disruptions. This obviously comes at a time when there is plenty of concern around Russian oil supply, given the Russia-Ukraine war. The specific and most immediate risk when it comes to Russian oil supply is the potential for the EU to include an oil ban in the next round of sanctions. The pressure on the EU to do so is certainly growing, but there is pushback from some EU member countries. Doing so would require a change in trade flows and the need for other producers to step up. However, up until now OPEC members have largely ignored calls for more aggressive output increases. While Russia likely does have some influence over OPEC members, given its part of the broader OPEC+ supply deal, there is also the question over whether OPEC has the capability to increase output more aggressively. The group has consistently failed to hit its agreed output levels for a number of months, with just a handful of producers, including Saudi Arabia and the UAE, having a meaningful amount of spare capacity.

As we have seen for quite some time now, the one factor which continues to hold the market back is the Covid situation in China and the impact this is having on demand. Clearly, the regional lockdowns that we are seeing have lasted longer than many were anticipating, and so this will have a bigger impact on oil demand in the short term. This weaker demand helps to reduce the tightness that we are currently seeing in the market. Latest output data from China shows that refiners processed around 13.8MMbbls/d of crude oil in March, down about 2% YoY. In addition, the export of refined product totaled 4.07mt in March, up from 3.24mt in the previous month. Although admittedly still down by around 40% YoY. Given weaker demand, refined product exports could see further upside over April.

While the European gas market has calmed somewhat following the strength and volatility earlier in the year, it is now the US market where we are seeing significant strength. Henry Hub has rallied by more than 38% since the start of February, which sees the market trading not too far away from US$8/MMBtu and the highest levels seen since 2008. Forecasts for colder weather have been constructive for prices at a time when US gas storage is below its 5-year average and also at its lowest levels since 2019 for this stage of the year. Stronger heating demand from both the residential and commercial sectors, increased demand from the power generation sector and stronger LNG exports have helped to draw inventories at a quicker pace this year. However, with the heating season mainly behind us, the expectation of production growth in the months ahead and limited room to increase LNG exports significantly more, we believe the current strength in the US market will be short-lived.

Metals

Metals rebounded in Shanghai on Monday, while London remained closed for Easter. The rally in Shanghai was likely to be the reaction to the latest RRR cut and higher-than-expected GDP data from China for 1Q22. More importantly, the market saw fresh hopes after Shanghai officials came up with a 'white list' to prioritise 666 companies to restart under a formulated plan for close-loop management, including live-on-site and testing regularly. The 'white list' includes a number of car-making factories, among other industries. Volkswagen and Tesla are reported to begin preparing to restart operations after a nearly three-week shutdown.

Over the weekend, He Xiaopeng, the CEO of Chinese electric vehicle maker Xpeng, warned that automakers might have to suspend in May if suppliers in Shanghai and those surrounding areas remained shut. His comments were echoed by a senior official from Huawei who said that all technology factories would have to suspend operations in May. These comments have triggered wider panic in the market, but the latest move from the Shanghai authorities has provided some comfort. Meanwhile, the city is also reported to have set a target of zero-Covid cases outside of its quarantine areas by Wednesday, which could allow further easing in lockdowns.

There have been reports that logistical bottlenecks have improved in areas including Shanghai city and its neighboring Jiangsu province, which has allowed metals to move around. This allowed some copper to be loaded out of warehouses based in Shanghai. The average operating rate at copper semis producers has seen a moderate rise. Inventory drawdowns in both ingots and billets saw aluminium prices rebound more than 1.5% in Shanghai yesterday. There are reports that Guangxi authorities are offering cash subsidies to those smelters disrupted by Covid containment measures, while meeting certain requirements. Reduced import flows amid an unfavourable import arbitrage are expected to offset rising domestic production and would still leave the onshore market tight, with demand set to recover. According to the latest trade data from Chinese Customs, China's imports of unwrought aluminium and products fell 4.6% YoY to 197kt in March.

Total imports fell by 19% YoY to 533kt during the first three months of the year. On the exports side, alumina exports jumped 187% YoY to 10kt in March. YTD exports fell 8.9% YoY to total 20kt.

Agriculture

India's Sugar Mills Association reported that sugar production has increased by around 13% YoY to 33mt in the season so far - with around 305 sugar mills currently operating compared to just 170 at this point in the season last year. The association estimates India's sugar production to reach 35mt for the current marketing year that ends in September 2022. ISMA increased its estimates for sugar exports to around 9mt over the current season, compared to its earlier estimate of around 8.5mt and shipments of around 7.1-7.2mt in the previous season. India has already exported around 5.7mt of sugar through until the end of March (up 80% YoY) with around 0.8mt of sugar in transit and another 1.5mt of sugar exports already contracted. Recent strength in global prices has seen Indian sellers returning to the market.

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