The Commodities Feed: Metals rebound on China stimulus pledges

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Energy

ICE Brent traded firm yesterday and settled with gains of around 2.2% to US$107.6/bbl on lower supplies from the North Sea and continued strength in the refined products market, especially for distillates as supplies in the physical market tighten. The US heating oil prompt contract jumped by around 10% yesterday to settle at US¢514/g on a short squeeze with the prompt/next month spread widening to around US¢113/g. Reports over the possibility of the EU's import restrictions on Russian oil also continue to provide some support to Brent oil and refined products.

The crude oil loading programme for June shows that crude oil exports of north Sea BFOET grades (Brent, Forties, Oseberg, Ekofisk and Troll) could drop to 540Mbbls/d for the month due to maintenance at some of the oilfields in the region. The planned maintenance at the Ekofisk stream, which happens once every three years, will see crude oil shipments from the field falling significantly over the month to 40Mbbls/d only compared to 213Mbbls/d in May. Shipments from Johan Sverdrup could also see supplies falling. The region's crude oil loading in June will be at the lowest level since Aug 2007 and is likely to further tighten the physical market in Europe.

Metals

A stronger US dollar weighed on base metals prices yesterday with LME copper settling down by around 1.6% to US$9,697/t whilst other base metals also dropped by around 1-2%. However, metals rallied along with Chinese equities on Friday morning after China's Politburo pledged more stimulus in order to spur growth and vowed to contain the Covid outbreak.

The China Passenger Car Association (CPCA) expects retail sales of passenger cars in April to fall by 31.9% YoY (and 30.3% MoM) to 1.1 mln units. This is due to the strict lockdowns around Jilin province and Shanghai city that hurt both car production and sales. In particular, the auto parts manufacturing base in the Yangtze River Delta (YRD) centred around Shanghai has been disrupted due to various Covid-containment measures and logistics constraints which have caused wider disruptions to the nation's car industry. However, authorities have called for the removal of logistical restraints and have come up with a 'white list' of 666 firms that can prioritise reopening in late April. Car manufacturers and semiconductors producers such as Semiconductor Manufacturing International Corp (SMIC) are among those to be allowed to restart under a so-called loop arrangement, which in theory would prevent further production and sales losses from May onwards.

Glencore revised its copper production guidance for 2022 to 1.08-1.14mt compared to its earlier targets of 1.12-1.18mt on account of lower production over the first quarter of the year. The company also lowered zinc production guidance by around 100kt to 0.98-1.04mt. Temporary disruptions at some of the mining operations including geotechnical challenges at its Katanga mine and Covid-19 related disruptions in Australia were cited for the production decline. Many of the large miners have reported mining supply challenges over the first quarter of the year including logistical and supply chain issues that have been keeping supplies tight.

Agriculture

Sugar cane crushing in Brazil is off to a slow start due to delays by sugar mills in starting operations. In its first report for the season, the country's sugar industry association UNICA reported that sugar production in Center-South Brazil was only 127kt over the first half of April compared to 633kt a year ago. Sugar cane crushing dropped from 15.7mt a year earlier to 5.2mt this year. Only 85 sugar mills started operations over the first half of April compared to 149 a year ago; another 104 sugar mills are likely to start crushing over the second half of April. Sugar cane allocation for sugar production also dropped to just 25.9% for the period compared to 38.8% a year ago as high ethanol prices pushed millers to allocate more of the cane towards ethanol production.

Author

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