The Commodities Feed: No surprises from OPEC+

Your daily roundup of commodity news and ING views

Energy

As widely expected there was little in the way of surprises from yesterday's OPEC+ meeting. The group confirmed that they would increase output by 400Mbbls/d in October, which is aligned with their current easing policy. While OPEC+ acknowledges that there is still plenty of uncertainty related to Covid-19, they believe that fundamentals continue to improve. The group is next set to meet on 4 October. Overall, the outcome of the meeting was neutral for the market.

US weekly inventory numbers were of more interest. The EIA reported that US crude oil inventories declined by 7.2MMbbls over the reporting week, which was more than the 4.05MMbbls draw reported by the API the previous day. Refinery utilization fell by 1.1 percentage points over the week to 91.3%, while crude oil exports increased by 228Mbbls/d to average 3.04MMbbls/d. However, of most interest was implied demand for refined products. Implied demand is reported to have hit a record high of 22.8MMbbls/d over the week, eclipsing the previous record of 22.4MMbbls/d seen in 2018. This stronger implied demand number likely reflects some downstream inventory build ahead of Hurricane Ida.

On the topic of Hurricane Ida, offshore US Gulf of Mexico (GoM) oil production is starting to make a quick comeback. According to the Bureau of Safety and Environmental Enforcement (BSEE) 1.45MMbbls/d of production remains shut in (almost 80% of total US GoM output), which compares to a little over 1.7MMbbls/d at its peak. This appears to confirm the view that we should see crude oil production make a quicker return than refinery operations, which should be supportive for refined product cracks.

Metals

Profit-taking led copper and aluminium to fall on Wednesday. The Caixin PMI report suggested that Chinese manufacturing slipped into contraction in July for the first time since April 2020. LME 3M copper declined by more than 2% at one stage yesterday, touching an intra-day low of US$9,275/t. The nearby spreads also eased with the cash/3M slipping from US$27.95/t (backwardation) last week to USS$3.25/t (contango) yesterday. Risks to copper mine supply have eased further after reports that workers at Codelco's Andina mine accepted the company's latest offer. In addition, the state-owned company also secured labour deals with major unions representing miners at El Teniente.

However, aluminium supply faces growing risks due to tightness in Indian coal supply. Reuters reported several power plants are on the verge of running out of the fuel. Aluminium smelters have reportedly sent a letter to Coal India, highlighting the risks of inadequate fuel supply. So far there hasn't been a meaningful impact on India's aluminium supply, but the situation is worth monitoring. The country is the second-largest primary aluminium producer after China, accounting for around 6% of total primary aluminium output.

Bonded aluminium premiums in China have risen to around US$190/t, compared to an average of US170/t in August, signalling an increased appetite for imports from the onshore market. There are reports that traders have boosted their shipments to China's bonded zones in anticipation of a profitable import arbitrage window, leading to an increase in aluminium stocks in the bonded sheds recently. China became a large aluminium net importer last year, and it has been continuing to import large amounts of primary aluminium and secondary alloys so far this year.

Agriculture

The CBOT corn December'21 contract slipped by a further 2% yesterday, while the CBOT soybean November'21 contract also settled with losses of more than 1%. Hurricane Ida is reported to have caused significant damage including power outages to some of the port and supply infrastructure around the region from where around 60% of US grains exports originate. Some shipments have restarted or diverted since then; however, plenty of uncertainty remains. These disruptions to export flows have led to supply surpluses in the domestic market in the immediate term.

Author

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

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