The Commodities Feed: Oil continues its march higher

Your daily roundup of commodity news and ING views

Energy

After a wobble earlier in the week, the oil market continued its move higher yesterday, with Brent trading to its highest level since late February 2020. A sell-off in the USD proved supportive for the market, while some further near-term support is likely to come from the API numbers which were released overnight, showing that US crude oil inventories fell by 5.82MMbbls over the last week. While the API reported a fairly large decline in crude oil stocks, refined product inventories increased, with gasoline and distillate fuel oil stocks growing by 1.88MMbbls and 4.43MMbbls respectively. The more widely followed EIA weekly numbers will be released later today, and the market is expecting a crude oil drawdown in the region of 3MMbbls.

The EIA released its latest Short Term Energy Outlook yesterday, which also provided their first forecast for US crude oil production in 2022. For 2021, the EIA left its US crude oil production estimate unchanged at 11.1MMbbls/d, down 190Mbbls/d YoY. However, expectations are that US production will return to growth next year, with higher prices seeing a recovery in rig activity. For 2022, the EIA is forecasting that US oil output will average 11.49MMbbls/d. OPEC+ will want to be sure not to push prices too much higher in the near term, with the risk that it only provides an incentive to US producers to increase drilling.

Metals

The weakness in the USD yesterday saw the bulk of the metals complex trade in the green, while there continues to be growing optimism around further US stimulus. LME copper prices rallied by almost 1.5% returning towards the US$8,000/t mark, whilst nickel prices led the gains, rising by around 3.4% yesterday. Nickel received an extra boost as the President of the Philippines ordered a stop to mining on Tumbagan Island in Languyan over environmental concerns. However, the order does not cover the country's mining hub in the Caraga region. Meanwhile, Japan's largest nickel producer, Sumitomo Metals Mining Company, expects the nickel supply surplus to ease to 69kt in 2021, compared to a surplus of 121kt last year on the back of rising Chinese stainless-steel output and strong demand from EV batteries. The group expects global output to rise 6.9% YoY to 2.58mt in 2021, largely due to rising nickel pig iron production in Indonesia, while global demand is expected to climb 9.5% YoY to 2.51mt this year.

Meanwhile, in China, SMM reported that some copper rod and wire producers in Hebei, Jiangxi and Henan province have either slashed runs or plan to bring forward Lunar New Year holidays, as the latest lockdowns restrict shipping of products. Along with that, some aluminium fabricators in Hebei have also idled or slashed production due to these restrictions.

Agriculture

Grain and oilseed markets received a boost yesterday following the latest WASDE report from the USDA, in which the agency cut a number of supply estimates. US corn production estimates for the 2020/21 marketing year were cut from around 14.5b bushels to a little over 14.18b bushels, which meant that ending stocks for the current marketing year were lowered from 1.7b bushels to 1.55b bushels. Meanwhile looking at the global corn balance, the USDA lowered ending stocks for the current marketing year by a little over 5mt, leaving stocks at 283.83mt. This reduction was driven by expectations of lower US output, along with some downward revisions for output in Argentina and Brazil. Moving onto soybeans, the US balance was also tightened with a slight revision lower in output, whilst the export estimate for the season increased. This led to US soybean ending stocks falling from the previous estimate of 175m bushels to 140m bushels. Meanwhile, the global soybean balance saw a marginal decline in ending stocks for the current marketing year, as a result of lower output from the US and Argentina.

Data from the Office of the Cane & Sugar Board in Thailand shows that Thai sugar output dropped 54% YoY to 1.3mt this season through until 7th January 2021. The Board also reported that the cane crush was down more than 50% YoY to total 14mt so far this season, compared to 28.5mt a year ago. A drought last year has impacted the Thai sugar crop, with yields lower than usual. Sugar production estimates for the full marketing year have also been revised down from 70mt to 65mt on account of the poorer crop. Tighter sugar production from Thailand and Europe has been supporting the whites premium recently which increased to a 4-month high of US$95/t.

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