The Commodities Feed: Oil prices edge up

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Energy

The oil market has continued its recovery today, after Saudi Arabia increased official selling prices for all its grades to all regions for December. The price increments are much higher than market expectations and give a bullish signal on supply tightness. Aramco has increased the OSP of its flagship Arab light grade for Asian buyers by US$1.4/bbl for December deliveries, to US$2.7/bbl of premium over the benchmark. Similarly, Arab Light's premium for European and US buyers have been increased by US$2.1/bbl and US$0.5/bbl respectively for the month. OPEC's steady approach on the output increments at 400Mbbls/d per month and stronger oil demand in global markets appears to have contributed to the increase in prices.

The US is reported to be exploring the option to release supply from Strategic Petroleum Reserves after OPEC+ resisted US calls to increase crude oil supply faster in response to the stronger demand. The Biden administration will be assessing the EIA's STEO (Short-Term Energy Outlook) data on Tuesday before deciding on the SPR release. Turning to China, oil imports into the country softened to around 8.9MMbbls/d in October - compared to around 10MMbbls/d in September and largely on account of delays in allocation of import quotas to private refiners and lower refinery operating rates. Looking ahead, China's oil imports could recover for the rest of the year, on fresh import quotas for private refineries, low domestic inventory and an increase in refinery operating rates to push up the supply of refined products.

Finally, positioning data shows that money managers continued to liquidate their long positions in crude oil and refined products over the last week. Managed money net longs in ICE Brent dropped by 9,690 lots over the last reporting week, the 4th consecutive drop to fall to 249,836 lots as of 2 November. The cuts were largely driven by longs liquidation as gross longs fell by 10,908 lots. Speculative net longs in NYMEX WTI also dropped, by 17,141 lots over the last week, with the reduction mostly again on the account of longs liquidation. Speculative net longs in refined products including ICE gasoil, NYMEX RBOB and NYMEX heating oil also dropped, by 11,877 lots, 5,193 lots and 5,913 lots respectively.

Metals

Industrial metals were still faced with headwinds amid signs of an easing energy crisis and demand destruction that added pressure on the economic outlook from the largest consumer (China) and elsewhere in the world. As a result, the outcomes from China's Politburo meeting this week will be closely scrutinized for clues on demand-side prospects for metals.

In aluminium, several converging factors led to a heavy sell-off last week, including the collapse of Chinese coal prices and rising primary inventories (see note here). However, broader inventory measure registered a small decline than last Thursday. Fears of demand destruction may have also peaked amid the recent power crisis. Billet inventories started to trickle down in the Chinese onshore market, after downstream users returned. In the ex-China market, the latest policy changes could help ease some tightness in the physical market going forward and offer some comforts to the downstream consumers. Russia said it will remove the 15% export tax on primary aluminium exports from 2022, offering some comfort on the tightness in physical markets from next year. On the other hand, the US and European Union (EU) agreed to remove tariffs on both steel and aluminium but to replace the tariff with quotas.

China Customs released their preliminary October trade data on metals and bulks. Iron ore imports slumped by 4% MoM and fell 4.2% YoY to 933mt during the first ten months. On the export side, however, steel product exports jumped 30% YoY on a YTD basis. In October, copper concentrate imports slipped from the level seen in September to 1.8m tonnes last month, but cumulative imports rose 6.3% YoY to 19.2m tonnes during Jan-Oct. Imports of unwrought copper and copper products continued their sequential increase in October to 411kt, but they fell 21% to 4.29m tonnes during the first ten months. As for aluminium, exports of unwrought aluminium and products fell from September levels to 480kt last month, but YTD they grew 14.3% YoY.

The latest data from the Ministry of Energy and Mines shows that Peru's copper production rose 10.9% YoY in the first nine months of the year. The rebound in copper production was boosted by higher production from operations of Antamina, Cerro Verde and Southern, as mining operations recover from the impact of the coronavirus pandemic.

Lastly, the latest CFTC data shows that speculators decreased their net long position in COMEX copper, selling 12,246 lots over the last reporting week, and leaving them with a net long of 35,350 lots (lowest in four weeks) as of last Tuesday. For precious metals, speculators decreased their net long in COMEX gold by 2,363 lots, to leave them with a net long of 98,888 lots, while decreasing their net long in silver by 5,239 lots.

Agriculture

CBOT soybean has been trading flat today after settling at a YTD low of US$11.92/bu on Friday due to softer demand. Trade data from China's Customs shows that soybean imports into the country dropped to 5.11mt in October 2021, the lowest monthly figure this year and down 41% YoY. Year-to-date soybean imports in the country are down 5% YoY to 79.1mt. Soft crushing margins, outages at soybean processing plants due to power shortages and operational curbs and weaker demand from the animal feedstock industry continued to keep soybean import requirements low in the country. Further weighing on soybean prices are market expectations of a bigger US crop estimate by USDA in its monthly WASDE report to be released tomorrow.

CFTC data shows that speculative net longs in CBOT corn increased by a huge 79,770 lots over the last week to 324,560 lots as the bull-run in ethanol prices boost sentiment for corn as well. Ethanol cash margins in the US increased to a 5-year high of US¢195/g last week compared to around US¢88/g at the end of October, hinting at stronger corn demand for ethanol production over the next few weeks. Managed money net longs in CBOT soybean and wheat also increased, by 18,770 lots and 14,519 lots respectively.

For longer-term, initial estimates from the USDA's baseline projections report shows that soybean acreage in the country could increase from 87.2m acres in 2021/22 to 87.5m acres in 2022/23. The agency estimates corn acreage to fall from 93.3m acres to 92m acres whilst wheat acreage could increase from 46.7m acres to 49m acres on account of stronger prices.

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