

The Commodities Feed: Oil faces further supply disruptions

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Energy

The oil market is faced with yet another supply disruption. We are only 3 weeks into the new year and the list of supply-side issues is already getting fairly long. The latest is an explosion along the Ceyhan pipeline, which carries crude oil from Northern Iraq to the Mediterranean Sea. The pipeline carries around 450Mbbls/d of crude oil. Therefore, the disruption is fairly sizeable. There is no timeline on how quickly operations will return to normal, although reportedly the fire has been brought under control. The growing list of supply disruptions that the market has witnessed, along with several key supply risks overshadowing the market, has ensured that sentiment remains bullish.

There are also concerns over the forecast for freezing weather conditions across Texas over the next few days. Last year, freezing conditions hit oil & gas production in the state. However, it is thought that the industry is better prepared for a repeat of the same conditions.

In its latest Drilling Productivity Report, the EIA forecasts that US shale oil production will grow by 104Mbbls/d MoM to 8.44MMbbls/d in February. While drilled but uncompleted well (DUCs) data shows that DUC inventory fell by 214 in December to 4,616. This is the lowest DUC inventory since March 2014 and suggests that oil producers will not be able to rely on this inventory to sustain production - we will need to see a pickup in drilling activity.

OPEC released its latest monthly market report yesterday, which showed that the group's production in December increased by 166Mbbbls/d MoM to 27.88MMbbbls/d. Under the OPEC+ deal, OPEC members could have increased output by around 240Mbbbls/d over the month. This highlights well the concern that some OPEC members do not have the capacity to increase output further. Looking at non-OPEC supply, the group left its growth estimates for 2022 unchanged at a little over 3MMbbbls/d, while global demand growth estimates were also left unchanged for the year at 4.15MMbbbls/d.

Metals

A slew of pro-growth measures unveiled by various Chinese authorities has propped up overall market sentiment, although the metals complex did still settle fairly mixed. The surge in US Treasury yields, along with some renewed strength in the dollar weighed heavily on gold. Copper settled at US\$9,676/tonne, down by 0.86% year-to-date. This is perhaps due to market sentiment turning cautious ahead of a key meeting next week from the US Fed, while there are also signs of inventory building across [major markets](#). However, the continuous inventory drawdown in nickel saw spreads spike on the LME with the tom-next spread surging to a record high and the cash/3m spread rallying to around US\$500/t, the highest since 2007. This has reportedly forced the LME to step in and monitor the market as it faces a major squeeze.

Eurometaux, representing a group of metal producers, including Glencore Plc, Rio Tinto Group and Norsk Hydro sent a letter to the European Commission to call for measures (including state-aid and tapping national gas reserves) to ease the regional power crisis and avoid any further smelter shutdowns. The producers also highlighted the risk of more upcoming production cuts or shutting down plants entirely in the absence of additional support to combat surging power costs. In metals, around 650kt of aluminium capacity has already been impacted due to the crisis, around 30% of the region's total capacity, while zinc producers have also been hit badly by soaring gas and electricity prices.

Agriculture

CBOT wheat prices traded strong yesterday, recovering the losses made over the previous few sessions. Reports of lower supplies from Russia (exports down 18% YoY to 22.7mt in the season so far) have been helpful for the wheat market. CBOT corn and soybeans traded relatively flat. Final trade data released from China showed that soybean imports into the country increased 18% YoY to 8.87mt in December, while full-year imports were down 3.8% YoY to 96.5mt. China's corn imports dropped 40% YoY to 1.33mt in December, although full-year imports were still up 152% YoY at 28.4mt.

Soybean exports from Brazil have started the year on a strong note as harvesting starts early. Brazil's foreign trade department reported that soybean shipments were around 1.24mt over the first half of January, compared to around just 50kt for the full month of January 2021 and a 5-yr average of around 1.21mt for the full month of January. The majority of soybeans are reported to be heading to China and are likely to weigh on Chinese demand for US soybeans in the near term. Weather prospects for the immediate future have also improved for Brazil and Argentina, which could ease some supply concerns.

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