

The Commodities Feed: Oil market under pressure

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Energy

Oil prices are under pressure. Brent settled 2.6% lower yesterday and at one stage, traded to its lowest levels since early October. This weakness has seen both Brent and WTI break below their 50-day moving averages. This downward pressure has continued in early morning trading today.

The catalyst for the move appears to be growing expectations of a release from the US Strategic Petroleum Reserve. At the same time, reports that President Biden asked President Xi for China to tap its oil reserves, have meant the potential for a coordinated release, along with other key consumers. In addition, given the rising price of gasoline at the pump, President Biden yesterday requested that the Federal Trade Commission look into potential anti-consumer behaviour by oil and gas companies. It is this growing discontent amongst key consuming nations (particularly the US), which appears to be making market participants nervous, that we could see some form of action to bring oil prices lower. While a release from the SPR would only provide some short-term relief to the market, that may be all that is necessary, given the expectation that the global oil market could return to surplus as early as 1Q22.

Weekly numbers from the EIA yesterday showed that US commercial crude oil inventories fell by 2.1MMbbls over the last week, while the market had been expecting a build. Contributing to the decline was a 573Mbbls/d WoW increase in crude oil exports (exports averaged 3.63MMbbls/d over the week- the largest volume since July), a 1.2 percentage point increase in refinery utilization and a 100Mbbls/d decline in crude oil output. Despite the increase in refinery activity, refined products inventories still declined over the week. Gasoline and distillate fuel oil inventories fell by 707Mbbls and 824Mbbls, respectively. Implied demand for refined products grew significantly over the week, increasing by 2.34MMbbls/d, although this increase was driven by the "Other oils" segment. The increase in distillate fuel oil was much more modest, growing by 70Mbbls/d, while gasoline saw a marginal decline in demand. Overall, the report was constructive. However, clearly, the market is focused on the potential for an SPR release at the moment.

European gas prices and Asian spot LNG prices held up well yesterday, despite the weakness in the oil market. Concerns over tightness this winter have grown in recent days due to German regulators suspending the certification process of the Nord Stream 2 pipeline. The strength in European gas prices continues to support the Asian LNG market, with the region having to compete for supply. In the APAC region, Gorgon LNG's 5.2mtpa train 1 was temporarily shut on the 16 November, after a gas leak was discovered. The other two production trains (which have a similar capacity) at the facility, continue to operate as normal.

Metals

The industrial metals complex ended lower yesterday, with the exception of aluminium. LME copper closed 1.6% lower on the day at US\$9,406/t, following macro headwinds along with a jump in exchange inventories. The latest LME data shows that exchange inventories for copper increased by 5.5kt to 99.5kt yesterday. In addition, on warrant stocks increased by 8.9kt to 62.1kt. The inflow of metal into LME warehouses has also seen the backwardation in spreads ease. The cash/3M spread is now trading at a backwardation of just US\$14.90/t, compared to US\$438/t at the start of the month.

The latest numbers from the National Bureau of Statistics (NBS) shows that China's refined copper output remained almost flat last YoY, with output totalling 855kt in October. Refined zinc production fell 9.2% YoY to 532kt, whilst lead output increased 0.6% YoY to a total of 622kt last month.

Nickel pig iron (NPI) production from Angel Nickel Project in Indonesia is now expected to come online in 1Q22, well ahead of the scheduled start date of October 2022. Nickel Mines, which owns 80% of the Angel Nickel Project, said that all four rotary kiln electric furnace (RKEF) lines are now expected to produce NPI by June 2022, with the first line coming online in March 2022.

The latest data from the International Lead and Zinc Study Group (ILZSG) shows that the global zinc market remained in a supply deficit of 93kt between January and September. This compared to a surplus of 457kt over the same period last year. Total refined production rose 3% YoY to 10.44mt, while total consumption jumped 8.8% YoY to 10.53mt in the first nine months of the year. As for lead, total production rose 4.9% YoY to 9.1mt, while consumption increased 6% YoY to 9mt between Jan'21-Sep'21. The lead market was estimated to be in surplus by 64kt over the first nine months, compared to a surplus of 148kt during the same time last year.

Agriculture

India's sugarcane crushing season this year (Oct21- Sep22) has started on a positive note, with sugar production in the country up 24% YoY to total 2.09mt through until 15 November. The Indian Sugar Mills Association (ISMA) reported that 308 sugar mills had started operations compared with 289 mills a year ago. India is expected to produce around 30.5mt of sugar in 2021/22, compared to a little over 31mt last season. ISMA estimates that India will need to export around 6mt of sugar in the current marketing year. Higher prices in the global market and healthy supply in the domestic market are likely to help keep exports strong for the year. Sugar mills in the country have so far contracted to export around 2.5mt of sugar in the current marketing year, with around 270kt shipped over October and around 200kt likely to be shipped this month.

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