The Commodities Feed: Oil rallies on stock draw

Your daily roundup of commodity news and ING views

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Energy

The oil market got a boost higher yesterday, with the EIA reporting that US crude oil inventories declined by 4.51MMbbls over the last week, more than the 2.2MMbbls draw the market was expecting, and slightly higher than the API numbers from the previous day. This is now the third consecutive week of stock declines, with inventories declining by almost 22.5MMbbls over this period. Crude oil imports over the week fell by 389Mbbls/d, whilst exports increased by 324Mbbls/d. Refinery utilisation rates finally passed the 80% level, increasing by 1.4 percentage points to 81% over the week. However, this increase was predominantly driven by the EIA reducing operable capacity by 335Mbbls/d on the East Coast - which is basically the capacity of the Philadelphia Energy Solutions refinery which suffered from an explosion last year and decided to shut for good.

Looking at the products market, and the EIA numbers were more aligned with what the API released the previous day. Gasoline and distillate fuel oil inventories fell by 722Mbbls and 2.32MMbbls respectively. Product demand also picked up over the week, with implied demand for total products increasing by 1.46MMbbls/d WoW. Gasoline demand hit 8.88MMbbls/d over the week, up 266Mbbls/d WoW, and the largest number since March. Similarly, distillates demand hit levels also last seen back in March.

Finally, OPEC released its monthly market report yesterday, which showed OPEC production averaged 23.17MMbbls/d in July, up 980Mbbls/d MoM. The largest increase came from Saudi Arabia, which increased output by 866Mbbls/d over the month as it ended its additional voluntary cuts. The group also made slight revisions lower to their demand forecasts for this year and next, lowering them both by 90Mbbls/d. The group now expects global demand this year to fall by 9.06MMbbls/d YoY, whilst for 2021, they are expecting it to grow by 7MMbbls/d, which still leaves demand in 2021 below 2019 levels.

Metals

Base metals were a mixed bag yesterday, with markets lacking very strong fundamentals to push prices further up in the immediate term. But the economic recovery and hopes of further stimulus are offering some level of support. Copper was the best performer yesterday, despite the fact that cathode premiums in multiple locations in Asia are under pressure, with the close in arbitrage aligned with the seasonal lull in physical demand. There were hefty moves in LME aluminium and zinc inventories, though in opposite directions, with aluminium stocks falling by 10.8kt, whilst zinc inventories grew by 15kt. Zinc saw its forward curve move steeper into contango, with the cash/3month spread falling to a discount of US$18.80/t. Inventories have risen by 162kt YTD currently sitting at 213kt, the highest since September 2018, which is also a reflection of weaker demand outside China.

On the ferrous side, Bloomberg data shows that profit margins for Chinese steel mills have increased to an average of CNY260/t so far in the current month, this compares to an average of CNY184/t in July, and YTD average of CNY117/t. Looking at these stronger margins, it is no surprise why iron ore prices have been trading as strong as they have recently, with the front-month SGX iron ore contract settling above US$120/t yesterday.

Agriculture

The USDA released its monthly WASDE report yesterday, and it was fairly bearish, with the agency revising its 2020/21 US production estimates higher for both corn and soybeans by more than expected. For corn, the USDA revised yields up from 178.5bu/acre to 181.8bu/acre, which sees their US corn output estimated revised from 15b bushels to 15.28b bushels- which would be a record if hit. For soybeans, the agency also revised yields higher, which has increased the production estimates from 4.135b bushels to 4.425b bushels. With these production increases, and despite higher export estimates, US ending stocks for the 2020/21 marketing year are set to be higher than estimates from last month for both corn and soybeans.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**45.43**	2.09	-26.76	Spot Gold (US$/oz)	**1,915.8**	0.21	26.27
NYMEX WTI (US$/bbl)	**42.67**	2.55	-30.12	Spot Silver (US$/oz)	**25.5**	2.90	42.91
ICE Gasoil (US$/t)	**378**	0.00	-35.92	LME Copper (US$/t)	**6,433**	0.73	4.19
NYMEX HO (Usc/g)	**126**	1.52	-38.02	LME Aluminium (US$/t)	**1,787**	0.06	-1.27
Eurobob (US$/t)	**392**	2.20	-33.67	LME Zinc (US$/t)	**2,401**	-0.37	5.68
NYMEX RBOB (Usc/g)	**124**	3.26	-26.74	LME Nickel (US$/t)	**14,258**	-0.64	1.66
NYMEX NG (US$/mmbtu)	**2.15**	-0.88	-1.69				
TTF Natural Gas (EUR/MWh)	**7.17**	-3.29	-40.49	CBOT Corn (Usc/bu)	**315**	0.96	-18.89
				CBOT Wheat (Usc/bu)	**491**	-0.76	-12.08
API2 Coal (US$/t)	**50**	-1.76	-13.56	CBOT Soybeans (Usc/bu)	**891**	1.42	-5.57
Newcastle Coal (US$/t)	**50**	-2.25	-27.52	ICE No.11 Sugar (Usc/lb)	**12.84**	0.78	-4.32
SGX TSI Coking Coal (US$/t)	**112**	-0.79	-20.80	ICE Arabica (USc/lb)	**112**	0.63	-13.61
SGX Iron Ore 62% (US$/t)	**116**	0.96	27.38	ICE London Cocoa (GBP/t)	**1,692**	0.83	-6.98

Source: Bloomberg, ING Research

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