The Commodities Feed: Oil stock release imminent

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Energy

A US announcement of an oil release from the strategic petroleum reserves appears to be imminent. Media reports suggest that an announcement of a coordinated release could happen as soon as today (Tuesday). Those potentially joining the US could include China, India, Japan and Korea. The US would likely make up the bulk of any release. Reports suggest that the US share could be in the region of 35MMbbls. There is little known on the potential size of releases from the other key consumers, although if it was to be prorated relative to consumption levels, it would be a significant addition. The last IEA coordinated release was in 2011 when 60MMbbls were released, with the US making up half of this volume.

Action from the US and other key consumers has been priced in by markets to a certain extent, although given the uncertainty over the size of any release, it certainly isn't fully priced in. Therefore, if the announcement surprises on the upside, we could see some further immediate weakness in the market. However, one still needs to question whether there really is a need for this action. Covid concerns are growing once again, particularly with stricter restrictions being implemented in parts of Europe, whilst the oil balance is expected to be much more comfortable as early as the first quarter of next year.

There is a growing risk that OPEC+ responds to an SPR release by pausing planned supply increases. A resurgence of Covid-19 in Europe coupled with a potential release may be reason enough for the group to decide against a production hike of 400Mbbls/d when they meet in early December. The prospect of retaliation from OPEC+ does leave the potential for further volatility in oil markets.

Metals

Industrial metals were whipsawed by a slate of news referring to the Chinese property market. However, the rally in the US dollar and Treasury yields following news on Fed Chair Powell's reappointment weighed heavily on gold.

The zinc market saw short-covering in London after Glencore said it was planning more cuts at Portovesme in Italy. It has a total capacity of around 100ktpa, though there isn't an indication of the scale of cuts. The LME 3M contract jumped more than 3.5% on the news touching an intra-day high of US$3,359/t. The latest plan on cuts comes with gas and power prices remaining at elevated levels in Europe. Earlier in October, both Glencore and Trafigura announced cuts across their European smelters. Expectations of reduced supply and inventory drawdowns have remained supportive for zinc, despite the headwinds from a slowing property sector in China. LME on-warrant stocks have slid to 175kt, and the front-end spreads have tightened into a deeper backwardation since last month.

Yunnan Aluminium's Wenshan unit announced yesterday that its 300ktpa smelter is restarting production on Monday following a leakage that caused an accident last Thursday. The restarting unit refers to the potlines that were curtailed earlier under the government mandate cuts due to both power shortages and 'dual control' pressure from the region. Last week's damaged potlines may take a couple of months to repair.

The latest numbers from the International Aluminium Association (IAI) show that daily global primary aluminium output stood at 183.5kt in October, compared to 182.7kt a month earlier. On a monthly basis, total output rose 1.3% YoY and 3.8% MoM to 5.7mt. For the first ten months of the year, output rose 4% YoY to 56mt. For China, production remained almost flat YoY, but grew 3.8% MoM to 3.3mt in October. Cumulative Chinese output stood at 32.6mt up 5.9% YoY.

Agriculture

CBOT wheat started the week on a very strong note and gained more than 2.7% yesterday to settle at a fresh 5-yr high of almost US$8.46/bu on supply concerns from Australia. Heavy rainfall in the country since the start of the month amid the ongoing harvesting season has raised concern over the pace of the harvest as well as on the quality of grain. Excessive wet weather towards the end of the crop cycle appears to be harmful to the wheat quality and could tighten the market for high-grade wheat in the immediate term. Australia is a major wheat supplier with around 12% of the market share in global wheat exports for the 2020/21 marketing year.

In its monthly crop monitoring report, the European Commission reported that planting of winter grains was largely completed on time in Central and North Europe and is progressing well in Southern Europe. Moreover, the weather to date has been favourable for crop development and mild temperatures and adequate soil moisture has also been helpful for the current crop.

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