The Commodities Feed: Record US crude oil inventories

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Energy

Oil prices closed the day higher yesterday, although WTI is under pressure in early morning trading in Asia, which makes more sense following yesterday's bearish EIA report. US commercial crude oil inventories grew by 5.72MMbbls, while less than what the API reported the previous day, it was very different from the small stock drawdown the market was expecting. This increase now sees total US commercial crude oil inventories stand at 538MMbbls, surpassing the levels seen back in early 2017, and in fact the highest level going as far back as 1982. While refiners increased their run rates to the highest levels since early April, at 73.1%, it is still well below the 5-year average of around 94% for this stage of the year. The trade side added to the build, with crude oil imports increasing by 685Mbbls/d over the week. Imports from Saudi Arabia remained at elevated levels for the third consecutive week, coming in at a little over 1.5MMbbls/d. Crude oil exports fell by 355Mbbls/d, to average 2.44MMbbls/d over the week, the lowest weekly export number since November. The narrowing in the WTI/Brent discount in recent weeks supports these lower export volumes. Finally, on the domestic demand side, total products demand increased by 2.5MMbbls/d over the week, to 17.57MMbbls/d.

Moving onto India, and fuel consumption in the country continues to recover, according to data from the Ministry of Petroleum & Natural Gas. The latest data for May show that fuel consumption increased by an impressive 47% MoM, with the government relaxing some aspects of the nationwide lockdown over the month. However, consumption still remains well below normal, down 23% YoY for the month. Unsurprisingly the largest declines were seen in jet fuel, gasoline and diesel.

Metals

A weaker USD and signals from the US Fed that monetary policy will remain loose for the next couple of years has helped base metals continue their upward trend, with copper settling more than 2% higher yesterday. LME copper has clawed back the bulk of losses seen during the Covid-19 outbreak now, with prices trading above US$5,900/t- levels last seen back in January.

Supply-side risks for copper remain, with Covid-19 still gripping a number of South American countries, while the ongoing drought-like situation in Chile has been weighing on mining. This week, Codelco announced that it will reduce processing at its 460ktpa El-Teniente mine due to water supply shortages; and the miner warned that processing rates could dip further if water shortages persist. Whilst the impact on output is not immediately clear; lower processing rates increase the risk of an even tighter copper market in the months ahead. Anglo's c.350ktpa Los Bronces mine has also been facing a water shortage since late last year, with copper production at Anglo American Sur (including Los Bronces and El Soldado mines) down around 21.5% YoY to 109kt over the first four months of 2020. Meanwhile, in China, Antaike released its May data for China cathode production, which showed a decrease of 2.7% MoM (678kt). Although on an annual basis, output has grown by 7.7%. This is likely due to increased smelter maintenance in the month, amid falling spot treatment charges.

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