The Commodities Feed: Risk-off move hits the complex

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Energy

Crude oil could not escape the risk-off move yesterday related to Evergrande contagion fears. ICE Brent settled almost 1.9% lower, although we are seeing a slight relief rally in oil markets in early trading this morning.

The latest data from the Bureau of Safety and Environmental Enforcement (BSEE) shows that US offshore Gulf of Mexico (GoM) production is still suffering following Hurricane Ida. As of yesterday, 331Mbbls/d of production remained shut in, which is equivalent to 18.19% of total US GoM output. A fair amount of this production is set to remain offline until early next year. Yesterday Shell announced that it will take some time to restore output to pre-Hurricane Ida levels. At the moment about 60% of the company's US offshore GoM output is back online. However, with serious damage sustained to its WD-143 transfer facility, the remaining output is only expected to be fully restored in 1Q22.

While it was a sea of red for most markets yesterday, European natural gas prices continued to trade higher. Gazprom yesterday booked no additional pipeline capacity via Ukraine for October, while only around a third of the capacity offered via the Yamal-Europe pipeline was booked. This has only intensified concerns over tightness. European gas storage is about 72% full at the moment, compared to a 5-year average of almost 88%. The tightness in the European market suggests that prices are likely to remain elevated, as well as volatile. These higher gas prices should offer some support to the oil market, with the growing potential for gas to oil switching.

Metals

The market's flight to safety yesterday led to gains for the USD, putting further pressure on metals. LME copper led the declines, falling below US$9,000/t at one stage. As for aluminium, a large increase in LME cancelled warrants helped to limit the downside amid the broader market selloff. Cancelled warrants jumped by 69kt (highest since March) to 562kt as of yesterday, with the majority coming from Malaysia's Port Klang. Theoretically, this could lead to stock outflows from LME sheds.

The unfolding of Evergrande's debt crisis bears a warning of greater risks to the broader financial market and highlights the downside risks for metals demand from the property sector in the longer term. This comes on top of the bearishness on steel and raw material demand following the Chinese government's efforts to limit crude steel production to tackle carbon emissions and pollution in Hebei province ahead of the 2022 Winter Olympics. The most active iron ore contract on SGX fell for a ninth straight session yesterday, settling more than 8% lower on the day, which saw prices break below US$100/t.

Agriculture

The agri complex traded softer yesterday, along with the broader market sell-off. CBOT soybeans settled around 1.4% lower, while CBOT wheat and corn also settled in the red. The USDA's weekly export inspection report showed that grain shipments from the US recovered last week as operating activities resumed at Gulf Coast ports. However, shipments are still some distance away from normal levels. The agency reported that 403kt of corn was inspected for export over the last reporting week, higher than 159kt a week ago, but still lower than the 768kt inspected a year ago. Similarly, soybean export inspections recovered from 193kt to 275kt; although remain significantly below the 1.4mt of export inspections a year ago. Cumulatively, corn and soybean export inspections are down around 69.8% YoY and 86.5% YoY respectively since the season started on 1 September.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com