

# The Commodities Feed: Risk off move weighs on the market

Your daily roundup of commodity news and ING views



## Energy

The oil market struggled to hold onto gains following yesterday's bullish EIA report. Instead, a broader risk-off move across markets held oil back. The EIA reported yesterday that US crude oil inventories declined by 9.91MMbbls over the last week, which was much more than the 5.27MMbbls drawdown that the API reported the previous day, and very different from the small build the market was expecting. This was the largest weekly decline in stocks since July, and takes total US commercial crude oil inventories to just below 477MMbbls, the lowest levels since March last year. Crude oil stocks in Cushing declined for the third consecutive week, falling by 2.28MMbbls over the last week. The move lower in Cushing stocks has provided support to the WTI prompt time spread, with the Mar/Apr spread holding firm at a backwardation of around US\$0.11/bbl.

The significant decline in crude inventories was driven largely by trade, with crude exports increasing by 1.1MMbbls/d over the week to average 3.36MMbbls/d. Crude oil imports fell by 981Mbbbls/d over the week to average 5.06MMbbls/d, which is the lowest weekly import volume seen since late October. This decline was driven by lower flows from Canada, Colombia and Mexico, with imports from these origins falling by 775Mbbbls/d, 285Mbbbls/d and 247Mbbbls/d respectively.

Finally, on the refined product side, refinery utilization over the week was slightly lower, with rates falling by 0.8 percentage points. Despite this, gasoline inventories still grew by 2.47MMbbls, with implied gasoline demand falling by 279Mbbls/d over the period. Meanwhile, distillate fuel oil demand held up better, and in fact increased by 479Mbbls/d over the week, which meant that distillate inventories declined by 815Mbbls.

## Metals

The metals complex remained under pressure yesterday, with concern that lockdowns and other restrictions may hurt global economic growth weighing on risk assets. LME copper prices traded lower, whilst zinc led the declines with prices falling over 2% as LME inventories continued to surge for a second straight day. The latest data from LME shows that zinc exchange inventories jumped by 59.5kt yesterday, taking total stocks to 295kt, the highest level since June 2017. The majority of this addition came from Malaysia, Singapore and New Orleans.

Turning to bulks, the most-active SGX iron ore futures extended declines yesterday, with China announcing it would reduce its steel output, along with the expectation for lower steel demand growth this year. Also, sentiment around steel demand has been susceptible to shifts in policy. China has just started to tighten liquidity, with its overnight repo rate hitting the highest level in five-years.

The latest update from China's Ministry of Industry and Information Technology called for a speeding up in the reduction of the country's steel output, which includes banning illegal new capacity additions and firming up its guidance on capacity swaps. Crude steel output topped 1 billion tonnes for the first time last year supported by massive infrastructure spending by the government to revive the depressed economy due to the pandemic. The steel sector roughly accounts for 15% of carbon emissions and linking output to emissions highlights the nation's focus to deliver on its promise of a carbon-neutral economy by 2060.

Meanwhile, the China Iron & Steel Association (CISA) expects Chinese steel-product demand to grow by a small margin this year due to the nation's continued struggle with Covid-19. The group said that China's apparent demand for crude steel rose 9% YoY in 2020, while steel-product demand rose 7% YoY last year. The group also believes that steel-product exports will continue to decline this year, while imports will keep rising as the recovery in international demand faces challenges.

## Agriculture

CBOT corn recovered the losses made over the last week and made a fresh 5-yr intraday high of US\$5.44/bu yesterday with China's demand for US corn remaining very strong. The USDA reported sales of 0.7mt of corn to China yesterday. This follows sales of 1.36mt of corn on Tuesday. China's corn price continues to trade at a wide premium to CBOT corn, averaging US\$228/t so far this year compared to an average of around US\$175/t in 2020.

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