The Commodities Feed: Stronger Chinese oil imports

Your daily roundup of commodity news and ING views

Energy

Oil came under further pressure yesterday, with supply risks in the oil market subsiding. US Gulf Of Mexico production continues to return following Hurricane Delta, with 69.4% of oil production shut, compared to almost 92% at its peak. Remaining offline production will make a return in the coming days. This, coupled with the end of strike action in Norway, means the market will turn its attention back to demand worries, particularly given the spike in Covid-19 cases across parts of Europe.

Continued demand worries, along with Libyan supply finally making a return is proving to be a hurdle for OPEC+ when it comes to rebalancing the market. Therefore the market will be eagerly awaiting the Joint Ministerial Monitoring Committee meeting on 19 October, and whether the group recommends or takes any action to help with speeding up the rebalancing. There have been suggestions that OPEC+, or at least Saudi Arabia, is reconsidering the current plan of relaxing output cuts in January from 7.7MMbbls/d to 5.8MMbbls/d. While this would be a constructive development for the market, the issue is that it would mean a tighter than expected balance from January 2021, rather than right now, which is what the market would ideally like to see.

Finally, latest trade data from China this morning shows that the country imported 11.85MMbbls/d of crude oil over September, up 18% YoY, and 5.5% higher MoM, still some distance from the almost 13MMbbls/d imported in June. Meanwhile refined product exports over the month totalled

3.95mt, down from 4.27mt in the prior month.

Metals

The latest from US stimulus talks is putting the recent rally on tenuous ground, but the expectation of more spending packages in the event of a potential Biden win are fuelling the prospects for the reflation trade, and potentially supporting the base metals complex. As China returns from holidays, sentiment remains constructive, the latest update from Chinese state media suggests that the country would invest close to US$900 billion over the next five years (14th Five Year Plan) for power grid development, suggesting a major boost to aluminium and copper consumption. Meanwhile, there are growing hopes that grid companies may boost tenders for cables in order to fulfil their annual targets before the lunar year ends.

In LME trading yesterday, the December to January aluminium spread further tightened towards US$4/tonne (backwardation), leaving the risk of a squeeze on the shorts in the December prompt, as it will be painful to roll the positions over to January. Meanwhile the cash/3M and Dec20-Dec21 spreads have seen a flatter contango, and the latter may be putting pressure on stock financing trades due to poorer returns.

Moving on, and according to the latest LME off-warrant report for August, off-warrant inventories climbed across all base metals. Primary aluminium inventories increased by 160kt over the month, taking total stocks to 1.38mt. Copper inventories remained largely unchanged in August, rising by just 1.2 kt, leaving stocks at 170kt. Meanwhile, zinc off-warrant inventories rose by 19kt from the prior month to 72kt, and lead stocks increased by 7kt to total 29kt.

Latest data from Antaike shows that copper cathode production from Chinese smelters picked up 3% MoM last month. However, output remained 1.6% lower YoY during the first nine months of the year and totalled 6.26mt. Looking at premiums, the Chinese Yangshan copper premium rebounded slightly and reached to US$53.5/t yesterday, the highest level since 23 September; however still some distance from the YTD highs of US$113.5/t seen in May.

Finally, trade numbers from China Customs shows that copper ore and concentrate imports jumped 34% MoM (+35% YoY) to 2.14mt in September. Overall, concentrate imports were up 2.3% YoY to total 16.4mt over the first nine months of the year. Meanwhile, unwrought copper imports also increased by 8% MoM (+62% YoY) to stand at 722kt last month, while YTD imports were up 41% YoY to 4.9mt. Then iron ore imports rose 8% MoM and 9% YoY to total 108mt in September, while YTD iron ore imports were up 11% YoY to total 868mt.

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