The Commodities Feed: Supply risks linger

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Energy

The oil market saw a bit of a recovery yesterday, after the heavy sell-off earlier in the week. ICE Brent rallied by more than 3.9%, whilst WTI has settled back above the US$100/bbl level. Plans for a large Chinese stimulus package over 2H22 have proved positive not just for oil, but for the broader commodities complex. On the supply side, there remain risks around Kazakhstani oil flows, after a Russian court earlier this week ordered the halting of loadings from the CPC terminal on Russia's Black Sea Coast. The court ordered a 30-day stoppage in loadings apparently due to violations on rules around oil spills. However, up until now Kazakhstan has said oil flows remain unaffected. The CPC terminal exports in the region of 1.3MMbbls/d of crude, and so this is a concern for the oil market, particularly at a time when there are already plenty of supply worries for the global oil market.

The EIA's weekly US inventory report was fairly mixed yesterday. US commercial crude oil inventories increased by 8.23MMbbls, which is the largest weekly increase since early May. However, when factoring in releases from the SPR, total US crude oil inventories increased by just 2.39MMbbls. The build was driven by an increase in crude oil imports, which were up 841Mbbls/d WoW, whilst crude oil exports declined by 768Mbbls/d. In addition, domestic refiners decreased their utilization rates over the week by half a percentage point, which would have helped add to the crude build. However, changes to refined product inventories were more supportive. US gasoline inventories declined by 2.5MMbbls, whilst distillate stocks fell by 1.27MMbbls over the week.

Metals

Metal prices witnessed a sharp recovery yesterday. LME copper rallied by more than 4% after reports that China is planning a large stimulus package for the economy. Reports suggest that China's Ministry of Finance is planning to allow local governments to borrow an additional US$220bn through special bonds over the second half of the year to boost infrastructure spending (see also our Asia Morning Bites). A demand slowdown in China has been a major concern for metal markets this year as Covid-related lockdowns weighed on demand. A further boost to infrastructure spending should be supportive of base metal demand prospects over the latter part of the year.

Nickel was unable to enjoy the broader strength seen across metal markets yesterday. Instead, nickel settled lower. Increasing supply from Indonesia continues to weigh on sentiment and prices. SMM reported that new production capacity of around 15mt of nickel content (8-10mt of nickel matte and c.5mt of hydrometallurgical intermediate) has come into operation in the recent past which should increase Indonesian exports of nickel to China.

Agriculture

Brazil's CONAB reported generally favourable weather for crops over the last few weeks. The agency increased its corn production estimate from 115.2mt to 115.7mt (up 32.8% YoY) on better yields for 2021/22, while also reporting that 28% of the 2nd crop was harvested to date. However, CONAB slightly trimmed its soybean production estimate from 124.3mt to 124mt (down 10.2% YoY) for 2021/22 on smaller acreage and yields - the market was expecting a number closer to 124.9mt.

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