The Commodities Feed: UAE attack

Your daily roundup of commodity news and ING views

Energy

The oil market settled higher yet again yesterday. ICE Brent closed comfortably above US$86/bbl. Growing geopolitical risks have helped to support the market. This comes after a deadly drone attack on the storage facilities of Adnoc in the UAE. Yemen's Houthi rebels have since claimed responsibility for the attack. This growing geopolitical risk comes at a time when there is already plenty of concern in the market over the potential impact of an escalation in tensions between Russia and Ukraine. These growing risks, combined with worries over OPEC spare capacity, have meant that sentiment in the oil market has remained bullish. Technically, the oil market is well in overbought territory, whilst fundamentally we also believe that the market is being too complacent about demand risks around China and its zero-Covid policy.

Chinese output data yesterday showed that domestic crude oil production in December averaged 3.9MMbbls/d, up 1% YoY, while domestic refineries processed 13.89MMbbls/d of crude oil over the month, down 2% YoY. Taking into consideration this data, along with import volumes for the month, suggests that Chinese crude oil inventories grew by a little over 900Mbbls/d in December. If the stronger oil price environment persists, we would not be surprised to see China taking a step back from the oil market.

There are several data releases today. These include further trade data for China, which should cover refined products. Then later in the day, OPEC will release its monthly oil market report, which will include December production numbers for the group, as well as their outlook for 2022. This will be followed by the EIA's Drilling Productivity report which includes drilling and completion activity for the US.

Metals

The reaction from the metals complex to China's 8.1% GDP growth for 2021 was quite muted. Instead, sentiment soured during the early session in London, although the complex ended the day fairly mixed. The latest PBoC cut on a key policy rate, along with the RRR cut at the end of last year suggests that there are worries over the economy, which as a result, raises concern over the short-term demand outlook.

LME copper traded largely flat on Monday due to the holiday in the US. LME copper stocks saw inflows of 6.5kt, which was largely driven by increases in Europe. This takes total LME stocks to 92.85kt as of Monday. Another sizable increase in cancelled warrants (+14kt in Asia) saw aluminium touching an intra-day high of US$3,010/tonne. Nickel's rally paused with 3M prices slipping around 0.6% DoD. There are reports that Boliden expects to restart the Harjavalta smelter in the near future, although there is no detailed timeline. The smelter was shut around mid-December last year and was originally expected to come back online around mid-January.

As for iron ore, prices declined for a third straight session due to rising port inventories, reduced restocking activity in China and improving weather conditions in Brazil. Vale SA, which suspended mining operations last week due to heavy rains, is now ramping mines in southern Brazil as the rainfall eases. On Monday, the miner said its Aboboras, Vargem Grande, Fabrica and Viga plants (which represent about half the capacity of the company's southern system) have been gradually restarting. In the southeastern system, the recovery of rail services is allowing production at Brucutu and Mariana to resume. The company estimates a production impact of about 1.5mt. However, some of this production may be recovered throughout the year.

Agriculture

India's sugar production continues to be very strong with the Indian Sugar Mills Association (ISMA) reporting that cumulative sugar output increased 6% YoY to 15.1mt for the season which started in October 2021. An early start to the crushing season, combined with sufficient availability of sugarcane, has helped sugar production remain strong so far this season. Sugar exports from India were reported at around 1.7mt until the end of December 2021, compared to only about 0.45mt at the same stage last year. ISMA also reported that sugar mills have contracted to export around 3.8-4.0mt of sugar this season. This volume has been largely flat over the last month, as mills wait for higher global sugar prices before signing further export contracts.

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