The Commodities Feed: US DUCs continue to edge lower

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Energy

Oil settled lower yesterday, with USD strength weighing on the market. The optimism around fairly constructive Chinese production data for January-February did not last long, at least for the oil market. Chinese industrial production grew by 35.1% YoY YTD, but obviously, this strong growth was largely due to a low base, given the Covid-19 related lockdowns last year. Specifically for oil, China's refiners processed 14.19MMbbls/d of oil over the first two months of the year, largely unchanged from December, but up from 12.12MMbbls/d over January and February last year.

Moving to the US, and the EIA released its latest Drilling Productivity Report yesterday, in which they forecast that US shale oil production would fall by 46Mbbls/d MoM to average 7.46MMbbls/d in April. The report also showed that drilled but uncompleted (DUCs) wells in the US continue to edge lower, falling by 102 in February to leave total DUCs at 7,086, which is the lowest level we have seen since November 2018. Producers have been happy to draw down these DUCs in order to help sustain production levels, with drilling activity still well below pre-Covid-19 levels.

Sticking with the US, and the WTI forward curve is showing signs of weakness, with the prompt spread having spent the last three days trading in contango. Crude oil inventories have increased substantially in recent weeks, as a result of US refinery disruptions, which have seen crude oil stocks approaching 500MMbbls. Crude oil exports from the US have also averaged below 3MMbbls/d over the last three reporting weeks, and these lower numbers are certainly not helping.

Metals

The metals complex remained buoyant after a slightly calmer bond market ahead of this week's FOMC meeting, while strong Chinese macro data provided some optimism for metals demand. Figures released by the National Bureau of Statistics (NBS) pointed to strong aluminium production in China over the first two months. However, investors appear to be more forward-looking, and instead focused on the ongoing production curtailments in Inner Mongolia, with local authorities facing pressure to cut energy consumption.

Turning to nickel, LME prices regained some lost ground after the Tsingshan NPI-to-matte announcement. 3M nickel rallied more than 1% and closed at $16,013/t yesterday. Mymetal reported yesterday that another battery-nickel project by Lygend could soon ramp up on Obi Island in eastern Indonesia. This project adopts the high-pressure acid leach (HPAL) method, with a target capacity of 37kt Ni-in-mixed hydroxide product (MHP) as part of the first phase.

The collapse in exchange-traded Class 1 nickel has had multiple ramifications among nickel products markets. In the Class 2 market, the discount of nickel pig iron (NPI) to Class 1 nickel has narrowed in China, but this is chiefly due to the weakness in refined nickel prices. NPI prices have also turned weaker, as buyers step back with spot purchases. Meanwhile, on the supply side, there are early signs of weakening prices for nickel ores in the spot market, which offers less support to NPI from a cost perspective.

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