The Commodities Feed: US East Coast fuel shortages

Your daily roundup of commodity news and ING views

Energy

Oil continues to trade in a rangebound manner, with the lack of a fresh catalyst for the market. The market is waiting for further developments regarding the Colonial pipeline outage. There has been panic buying along the East Coast, which has led to some gas stations in the region running out of fuel. The Environmental Protection Agency issued an emergency fuel waiver in several states in order to try help avoid shortages of reformulated gasoline. While a prolonged outage would be supportive for refined product prices, it could start to weigh on crude oil prices, if refiners on the US Gulf Coast are forced to reduce run rates due to a build-up of refined product inventories in PADD3.

OPEC released its monthly oil market reported yesterday, which showed that the group increased output by just 26Mbbls/d MoM to average 25.08MMbbls/d over April. Nigeria and Iran were the key drivers behind the marginal increase, with their output increasing by 75Mbbls/d and 73Mbbls/d respectively. Venezuelan and Libyan output declined by 81Mbbls/d and 67Mbbls/d respectively. OPEC made little changes to their outlook for the market, with the group still expecting that global oil demand will grow by 5.95MMbbls/d this year. Although non-OPEC supply growth estimates for 20201 were lowered from 930Mbbls/d to 700Mbbls/d. Overall the report was fairly neutral.

The EIA also released its latest Short Term Energy Outlook yesterday, and also made minimal changes to its forecast for US crude oil production. The EIA expects that US oil output will decline by a little over 300Mbbls/d this year to average 11.01MMbbls/d (compared to a previous forecast of 11.04MMbbls/d. While for 2022, output is expected to increase by 825Mbbls/d to average 11.84MMbbls/d.

Finally, overnight the API released weekly inventory numbers for the US, which showed that crude oil inventories declined by 2.53MMbbls, not too dissimilar from the roughly 2.1MMbbls decline the market was expecting.

Metals

Industrial metals remained in risk-on mode, along with rising inflation expectations as 1 year breakeven inflation climbed further to just shy of 3%. A softer USD index also continues to support the complex.

LME copper touched a high of $10,567.50/t on Tuesday, with supply risks providing further support. Workers at BHP's Chile operations centre in Santiago will vote on a final wage offer this week. Union leaders are advising members to reject the final offer. If this were to go ahead, it would be followed by government mediation of at least five days. This has again raised concerns for a potential strike in the nation, which is already struggling with a sulfuric acid shortage and a possible tax hike. However, aluminium's rally took a breather, with the LME 3m contract closing marginally lower. Reuters reported that China Hongqiao is set to ramp up its secondary aluminium project by the end of this year. It is expected to process 500ktpa of post-consumer scrap and reduce carbon emissions by 1.9m tonnes. Currently, the aluminium recycling rate in China is roughly around 21%, far below the ex-China average level. Although, given tighter primary supply and the increasing pressure to cut carbon emissions, aluminium recycling rates should grow in the future.

The Dalian Commodity Exchange (DCE) increased the trading limits and margin requirements for iron ore futures yesterday in a bid to cool down the overheated market. The official said that the move is primarily to strengthen daily supervision, severely punish various violations and safeguard market order to avoid the drastic fluctuations that iron ore futures encountered on Monday. The Shanghai Futures Exchange (ShFE) increased transaction fees for some steel products as well.

Agriculture

The ongoing dry weather in Brazil continues to weigh on current safrinha corn crop development. The State Department of Agriculture of Parana (Deral), the second largest corn-producing state in Brazil reported that 30% of the current corn crop was in bad condition as of last week compared to 27% a week ago and around 6% at this point in the season last year. The department has also reduced its safrinha corn production estimate for the state to below 12mt compared to an April estimate of 12.23mt.

Turning to sugar and the All India Sugar Trade Association (AISTA) reported that India has finalised export contracts of around 5.6mt for the current season so far and would likely achieve the government target of 6mt of exports for the season that ends in September 2021. The association reported that Indian sugar mills have shipped around 3.5mt of sugar through until 6th May, with another 0.9mt of sugar currently in transit for export. Higher shipments from India have been helpful for global sugar supplies; though the market remains buoyant on supply risks from Brazil due to dry weather.

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