

The Commodities Feed: US gasoline build weighs on the market

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Energy

The oil market came under pressure yesterday, and this has continued in early morning trading in Asia, with WTI breaking below US\$40/bbl. This comes despite the EIA yesterday reporting that US crude oil inventories declined by 1MMbbls over the last week, not too far off market expectations. The draw was largely due to the production shut-ins seen in the US Gulf of Mexico following Hurricane Delta. The EIA estimates that over the week, US crude oil output declined by 600Mbbls/d to average 9.9MMbbls/d. Meanwhile on the trade side crude oil imports slipped by 168Mbbls/d WoW, whilst exports grew by 901Mbbls/d WoW. These changes more than offset the reduction in refinery utilisation rates over the week, which fell by 2.2 percentage points, and saw crude oil inputs at refineries fall by 551Mbbls/d.

On the products side, distillates saw further stock draws this week, with inventories falling by 3.83MMbbls over the week, leaving total stocks at a little under 161MMbbls. The drawdown did provide a bit of support to heating oil cracks, although despite the fact that distillate fuel oil stocks have fallen by almost 20MMbbls since early September, they still remain at historically high levels.

It was the gasoline build which proved not great for sentiment, with the EIA reporting that US

gasoline inventories increased by almost 1.9MMbbls over the week, compared to expectations of a draw. It was also the largest gasoline build since June, and comes despite the fall in refinery utilisation over the week. A fall in implied gasoline demand did not help, with it falling by 287Mbbls/d over the week.

Metals

Risk sentiment improved yesterday, fuelled by hopes of an imminent deal on a US stimulus package, while positive signs re-emerge on Brexit talks, with reports that there is an aim for a deal by mid-November. A weaker USD has helped with the rally in the metal complex, with copper breaking the US\$7,000/tonne mark at one stage, levels last seen in June 2018.

There is little fundamentally that is dictating direction for metal prices. Although LME aluminium inventories have started to surge, with a 64kt increase coming predominantly from Asia. As expected, this is likely the result of recent spread tightness in part of the forward curve, which has forced deliveries. However a sizeable load-in, together with more evidence of rising production from China meant that the aluminium rally was more muted compared to the broader move in metal markets yesterday. Elsewhere, Century Aluminium is said to close its Mt Holly aluminium smelter by the end of this year if they cannot secure a competitively priced power arrangement. This follows the recent decision by Alcoa to close its Spanish based San Ciprian aluminium smelter. Such cases could further drive further divergence in the aluminium industry, where China capacity has been continually growing, whilst the rest of world, particularly from some major developed economies, continue to see a decline in primary smelting capacity.

In copper, Antofagasta in its latest quarterly update reported that its copper output fell 4.6% QoQ to 169.6kt in 3Q20, largely due to maintenance work at its Los Pelambres mine, and lower grades at its Antucoya operations. YTD copper output now stands at 541.3kt, 7.3% lower YoY. The miner continued to maintain its output guidance for 2020, however, now expects production to be at the lower end of its original guidance of 725-755kt. Looking ahead, the group expects copper production to rise to between 730-760kt in 2021, with the expectation of an overall improvement in operating conditions. Meanwhile, in China, refined copper output rose 1.7% MoM and 8.5% YoY to 909kt in September, which is also the highest level recorded this year. However, monthly output fell short of the record 930kt produced in December last year.

Finally, the International Lead and Zinc Study Group (ILZSG) in its latest update, estimates that global refined zinc consumption will fall by 5.3% YoY to 12.98mt in 2020, with major demand loss coming from Europe (-7.7% YoY), while expectations are that Chinese consumption will remain stable. On the supply side, mine production is expected to fall by 4.4% YoY to 12.33mt whilst refined production will increase marginally by 0.9% YoY to 13.6mt for the year. The group estimates the global zinc market will see a supply surplus of 620kt this year, and 463kt in 2021 as demand recovers. For lead, the group expects the market to end the year with a surplus of 276kt and forecasts the surplus to narrow slightly to 192kt in 2021.

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