

The Commodities Feed: US gasoline market continues to tighten

Your daily roundup of commodity news and ING views



Energy

The oil market continues to trade in a largely rangebound manner, with the market still waiting to see how Iranian nuclear talks progress. Yesterday's EIA report was fairly constructive, with inventory drawdowns reported in crude and products. Crude oil stocks fell by 1.66MMbbls over the last week, with refiners increasing utilisation rates slightly over the week, while crude imports fell and exports edged higher. In addition, crude oil inventories in Cushing fell by a little over 1MMbbls, which leaves total stocks at the WTI delivery hub at 44.76MMbbls, the lowest level since March last year.

On the product side, gasoline and distillate fuel oil inventories fell by 1.75MMbbls and 3.01MMbbls respectively. Implied gasoline demand over the week averaged 9.48MMbbls/d, the strongest number seen since March last year. As the US economy continues to reopen, along with the start of the driving season, gasoline demand should continue to edge higher. As a result, gasoline cracks are likely to remain well supported, particularly given that US gasoline inventories are currently not too far off from 5-year lows for this stage in the year. This leaves the gasoline market vulnerable, particularly if we see an active hurricane season, which impacts refinery assets along the US Gulf Coast.

Metals

Comments from US Fed officials that inflation would 'prove to be largely transitory' helped market sentiment as LME metals extended their rally. Copper received additional support perhaps due to the risk of strike action at BHP's mine in Chile, where workers rejected the latest wage offer. This saw LME 3M copper briefly trade back above the US\$10,000/t mark.

The President of the Democratic Republic of Congo confirmed the start of the Kamoakakula copper mine, which is jointly owned by China's Zijin Mining and Ivanhoe Mines. The mine is one of the key projects that would help alleviate mine supply tightness in the medium term. According to Zijin Mining, the mine is expected to bring about 80-95kt copper-in-concentrate in 2021. It could reach its designed capacity of 400ktpa after second-phase completion, which is scheduled for 3Q22.

In the ferrous space, steel products and iron ore are still feeling the pressure following comments from Chinese officials on cracking down on speculative activity. SGX's most active iron ore futures plunged to near US\$170/t, having traded to above US\$220/t earlier this month. This is despite port inventories having decreased for four weeks in a row as demand for iron ore remained solid. However, with steel margins now under pressure, we could see iron ore demand starting to soften.

Agriculture

No. 11 sugar prices traded softer yesterday with Brazil reporting a significant improvement in sugar production over the first half of May, as more mills started operations. In its bi-monthly report, UNICA reported that sugar production in Brazil's Center-South region increased to 2.38mt over the first half of May (down just 4.4% YoY) compared to 1.52mt over the 2nd half of April (down 25% YoY). Sugar cane crushing dropped by 2.8% YoY to 41.1mt, while the allocation of cane to sugar production also softened compared to a year ago, given elevated ethanol prices. The sugar mix over the period was 46.2%, compared to 47% for the same period last year.

China is reported to be pushing back against imports of corn into its free trade zones, which has led to some US cargoes being cancelled for the current marketing year. Media reports suggest that less than 1mt of cargoes were cancelled up until now as Beijing tightens controls. However, further cancellations can't be ruled out if the country continues to take a strict approach towards imports. China's corn imports this year have already exceeded the official import quota for the year, and so buyers appear to be shipping into free trade zones.

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