The Commodities Feed: US Gulf production shut-ins

Your daily roundup of commodity news and ING views

Energy

Oil is trading marginally higher in early trading in Asia this morning, with hurricane activity in the US Gulf of Mexico providing some support. Hurricane Marco, is closely followed by Tropical Storm Laura, in the region, and producers have started to shut offshore rigs as a result of the storms. According to the Bureau of Safety and Environmental Enforcement (BSEE), as of yesterday 57.6% of US Gulf of Mexico oil production had been shut in, which is equivalent to a little over 1MMbbls/d of production. While there is a focus on oil production at the moment, we will need to keep an eye on refining activity, which is vulnerable to flooding. The US Gulf is a key refining hub, with almost 54% of US capacity sitting in PADD3, and we do not have to look very far back to see the potential disruption to refining activity due to hurricanes. In 2017, hurricane Harvey saw run rates in the country fall from more than 96% to less than 77%, which led to a strong rally in refined product cracks. Although given the large amount of refined product stocks at the moment, the market would likely be able to handle any disruptions to refined product supply better this time around.

Meanwhile, the latest data from Baker Hughes shows that the US rig count jumped by 11 to total 183, which is the largest weekly increase seen since January. It is difficult to take away too much from one data point, and clearly we would need to wait several weeks to see if this is a trend that continues.

Metals

Last week's Norsk Hydro Alunorte curtailment gave a lift to alumina prices. Australia FOB prices led the gains, rising by almost US$25/t over the week, whilst the increase in the China market has been relatively moderate so far. The curtailment should tighten alumina supply and continue to support spot alumina prices, while the China market may react with a lag. However, the timing and the scale of the move will largely depend on how quickly and to what extent additional capacity (restarts as well as new) may ramp up in the near term. The latest CFTC data show that speculators increased their net long position in COMEX copper by 13,567 lots over the last reporting week, leaving them with a net long of 60,974 lots as of last Tuesday. Whilst for precious metals, speculators increased their net long in COMEX gold by 5,145 lots, to leave them with a net long of 155,274 lots as of last Tuesday.

Agriculture

Speculators are appearing to become more constructive on the agri complex, possibly on the back of strong buying from China, along with weather concerns in the US. The latest CFTC data shows that money managers did quite a bit of buying over the last reporting week in both soybeans and corn. Managed money net longs in CBOT soybeans increased by a massive 80,194 lots over the last week, mostly on account of new longs, which left the net long position at 107,058 lots as of last Tuesday, the largest position in over two years. Money managers reduced their net shorts from 172,361 lots to 110,499 lots in CBOT corn over the week.

Meanwhile, the Soybean Processors Association of India expects soybean production in the country to increase 32% YoY to 12.3mt in 2020 as higher prices and favourable weather push farmers to increase soybean acreage. The higher domestic output should reduce demand for imported oil/oilseeds into the country.

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