

The Commodities Feed: US oil exports surge

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Energy

Despite a number of supportive factors in the market, ICE Brent still managed to settle marginally lower yesterday. Clearly, demand concerns are outweighing supply risks at the moment. According to Bloomberg, Russian oil output averaged 10.11MMbbls/d between 1-19 April, which is down from 11.01MMbbls/d in March. Given the large amount of self-sanctioning we are seeing with Russian oil, it is likely that output will only decline further as term contracts expire. Germany's foreign minister has said that Germany will stop importing Russian oil by the end of this year, with natural gas to follow soon after, according to Reuters. Though the German finance minister has said it will take some time for Germany to wean itself off Russian oil & gas. Comments from both ministers suggest that we can probably rule out the EU putting an immediate ban in place against Russian oil. More likely will be a gradual phasing out of Russian oil, much like we are seeing with coal. A gradual phasing out would give time for trade flows to adjust in a more orderly fashion and so the impact on price would be more limited compared to an immediate ban.

EIA weekly numbers were constructive with US commercial crude oil inventories declining by 8.02MMbbls over the last week, which would be the largest weekly decline in crude inventories

since January 2021. Factoring in SPR releases, total US crude oil inventories declined by 12.72MMbbls over the week. The decline was largely driven by crude oil exports, which averaged 4.27MMbbls/d, up 2.090MMbbls/d WoW. In fact, total oil and refined product exports hit a record level of 10.6MMbbls/d, exceeding the previous record of 10.13MMbbls/d seen in late 2019. This saw net exports of oil and product grow to more than 2.9MMbbls/d last week, which is also a record. Given the structural changes we are seeing in the global oil market regarding Russian supply, along with the expected growth in US crude oil output, we would expect that the US becomes an even larger net exporter of oil and products in the months and years ahead.

The EIA report offered further support to middle distillates. US distillate fuel oil stocks fell by 2.66MMbbls over the week, leaving inventories at 108.74MMbbls. This leaves distillate stocks at the lowest level since 2008. This is a trend that we are seeing across different regions, whether it is Europe or Asia. [We recently looked into what is driving this tightness in the market](#) and given the lower export flows we are seeing from China along with plenty of supply risks in Russian gasoil exports, we expect that middle distillates will remain well supported. Middle distillate cracks need to stay strong in order to ensure that refiners maximize their middle distillate yields.

US natural gas prices have come under pressure, falling more than 12% since Monday. This is after having traded to multi-year highs earlier in the week. [As we pointed out earlier this week](#), it was difficult to justify Henry Hub trading at these elevated levels. Whilst inventories are seasonally below average, we are basically at the end of the heating season and expect to see continued production growth in the months ahead. In addition, the strength in the European and Asian markets will have a limited impact on US prices given that US LNG export terminals are operating close to capacity.

Metals

Increasing macro headwinds weighed heavily on base metals after real yields turned positive for the first time in two years. As a result, base metals slipped in London (with the exception of aluminium). Copper saw another sizeable inventory arrival into LME Asian based warehouses (9.95kt yesterday). So far, LME total inventories have risen from a recent low of 67kt on 8 March to 129kt as of yesterday, largely due to China exports. The latest trade data from China confirms this, showing exports of refined copper surging three-fold in March to 45kt.

However, aluminium continues to exit LME warehouses with another sizable drawdown of 10kt yesterday, leaving total stocks below 600kt, down 37% year-to-date. The tight ex-China market has seen over 42kt exports from China in March, and more than half of this was sent to the Netherlands to take advantage of the record high physical premium. As for data releases, the latest numbers from the International Aluminium Association (IAI) show that world primary aluminium production rose 11.2% MoM to 5.69mt in March, primarily driven by strong monthly growth from China (+11.6% MoM; -2.1% YoY) following the resumption of smelters in Southwestern provinces. However, total production during the first quarter was still down by 3% from the same period last year.

As for iron ore, the market was whipsawed by a confluence of factors, including weaker shipments in 1Q22 from major miners, while the demand outlook is overshadowed by China growth concerns and crude steel production controls. In the latest quarterly update, Rio Tinto said that iron ore shipments from its Pilbara operations in Australia fell 15% QoQ (8% YoY) to 71.5mt in 1Q22 on delays to expansion projects. However, the producer maintained its forecast for iron ore exports of

320-335mt from Australia and expected volumes to pick up in the second half of the year. Vale also reported a drop of 22.5% QoQ in its iron ore output, leaving it to total 63.9mt in 1Q22, as heavy rains disrupted production. However, the miner left production guidance unchanged at 320-335mt for the year. China Iron & Steel Association (CISA) said that steel mills in China will have to adjust their production intensity, keeping in mind the limited demand to meet the new market balance. Local government officials, including NDRC, MIIT, and the environmental bureau, will continue to curb crude-steel output this year. Earlier this week, the NDRC also pledged to reduce crude-steel output from last year's levels.

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