The Commodities Feed: US refiners increase run rates

Your daily roundup of commodities news and ING views

Energy

The oil market continues to edge higher, with ICE Brent creeping towards US$115/bbl. EIA weekly numbers were once again supportive. US commercial crude oil inventories declined by 1.02MMbbls over the week, although when taking into consideration releases from the strategic petroleum reserve, total US crude oil inventories declined by 6.99MMbbls. Gasoline saw another week of inventory declines, although the fall was more modest than what we have seen in recent weeks, with stocks falling by just 482Mbbls, whilst distillate fuel oil stock increased by 1.66MMbbls over the week. Refiners appear to be responding to the tightness in refined product markets. Refinery utilization increased by 1.4 percentage points to 93.2%, the highest operating rate that we have seen from US refiners since late 2019. These stronger refinery runs and slightly weaker implied gasoline demand over the week led to the more marginal decline in gasoline inventories. US gasoline stocks are likely to remain tight as demand picks up over the driving season.

Europe may face a bit more competition for spot LNG in the coming months. This is after Bolivia cut natural gas supplies to Brazil by 30% (6mcm/day) to 14mcm/day. Bolivia wants to renegotiate its current supply contract with Brazilian buyer, Petrobras, with the aim of receiving higher prices. This means that we could see Brazil stepping into the LNG market to make up for this lost supply, particularly given that hydro power may not be able to make up for the shortfall as we enter the Brazilian dry season. In 2021 we saw much stronger LNG demand from Brazil due to drought hitting hydro power generation.

Venture Global LNG announced that it has reached a final investment decision for a new LNG export plant in Louisiana, US. The Plaquemines LNG facility will see a little more than 13mtpa of capacity brought online in the first phase, whilst the second phase would take total capacity to 20mtpa. It is expected that at least the initial phase will come online relatively quickly, possibly as early as 2024, which would also be around the time that we start to see capacity at Golden Pass coming online. The issue for the global LNG market is that there is still limited export capacity starting up in the short term, and at a time when Europe is trying to diversify away from Russian pipeline gas.

Metals

Macro headwinds dominate the industrial metals complex. LME metals were mostly sold off yesterday amid growing fears of a global slowdown and dollar strength. During a virtual meeting with local Chinese officials on stabilising the economy, Premier Li Keqiang acknowledged that the difficulties in some respects are greater than in 2020. There have been growing fears that China will miss its official growth target this year. On Monday, Li had outlined 33 support measures to help businesses, and yesterday he said there would be more details to follow before the end of this month.

Nickel's intraday trading remained volatile. The 3M contract managed to close $238 higher after a heavy selloff during the morning sessions in London. Overall, it has largely come off from its post-squeeze level in early March to move in line with the rest of the complex. Investors have been retreating from the market, and fundamentals have deteriorated. This is primarily due to the demand hit in the stainless steel and battery sectors amid Chinese lockdowns. At the same time, nickel supply is improving, especially the Class 1 metal after rising shipments of intermediary products into China.

Freeport Indonesia reportedly aims to increase copper ore daily production to 178kt this year, compared to 145kt a year earlier. Overall, ore production is expected to rise to 64.9mt in 2022, compared to 52.9mt last year. Along with that, copper concentrate output is expected to increase, to 8.3kt/d with an annual target of 3mt in 2022, compared to total output of 2.8mt last year.

Agriculture

The latest fortnightly report from UNICA shows that sugar production in Center-South Brazil continues to progress at a relatively slow pace. Sugar mills in CS Brazil produced around 1.7mt of sugar over the first half of May, down around 30% YoY, whilst cumulative production so far this season has fallen by around 40% YoY to 2.7mt. Sugar cane crushing dropped 17% YoY to 34.4mt over the first half of May, with total sugar content in the cane down by around 5% YoY to 125kg/t. The sugar mix increased from 37.2% in 2H April to 40.8% in 1H May. The sugar mix is still significantly down from the roughly 46% seen at the same stage last season. Healthy margins for ethanol continue to push sugar mills to prioritize ethanol production in the immediate term.

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