The Commodities Feed: US SPR release in doubt

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Energy

The oil market has continued to move higher and Brent is trading back above US$85/bbl this morning. This follows the EIA's Short Term Energy Outlook (STEO), which showed that the oil market is set to be oversupplied next year, suggesting weaker prices in 2022. This should take some pressure off the US administration to act in order to bring oil prices lower in the near term. The US government was going to assess the STEO before making any decision on a potential release from strategic petroleum reserves and it had been suggested that President Biden may make an announcement this week regarding high oil and gasoline prices. This latest report makes it less clear if the Biden administration will still take action to ease prices. However, we would still not rule out an SPR (strategic petroleum reserve) release, particularly if prices stay at these stubbornly high levels.

The EIA estimates that the oil market will be oversupplied by a little more than 500Mbbls/d in 2022, which compares to being undersupplied by around 1.6MMbbls/d in 2021. As a result, the EIA expects Brent to average US$72/bbl next year, compared to a little over US$82/bbl in the final quarter of 2021. As for US crude oil supply, the EIA estimates that oil output will average

11.9MMbbls/d in 2022, up around 780Mbbls/d from 2021.

Offering further support to the market this morning were the latest API numbers, which showed that US crude oil inventories declined by 2.5MMbbls over the last week.

Finally, European natural gas prices came under pressure yesterday. TTF prices fell by more than 8%. There were a number of factors behind this weakness, including an announcement from Gazprom that they have approved and started a plan for gas injections into 5 storage facilities in Europe for November. There are also signs of increased Russian gas flows into Europe, which is helping to ease some concerns over the tightness in the European market. In addition, there were reports that the Groningen gas field in the Netherlands may have to temporarily increase output due to construction delays in a processing plant for imported gas, meaning the potential to rely more on domestic output.

Metals

Industrial metals remained under pressure yesterday, following the mixed macro events and signs of an easing in the power squeeze in China. Further adding to the pressure was a statement from the US Federal Reserve, warning that deeper turmoil in China's property sector could impact financial markets, hurting overall global growth. The latest market reports suggest that coal supplies in China have started to recover after the government ordered local miners to boost output, which will allow power plants and industrial consumers to start rebuilding stockpiles. This could also help avoid further power-related production losses, especially for aluminium, which has fallen for five straight months.

The latest data from Shanghai Metals Market (SMM) shows that China's copper cathode production fell 1.7% MoM and 3.9% YoY to 789kt in October due to power curtailments in the major producing regions. As per production plans, two smelters in Guangxi came out of maintenance, but output increased slowly due to accidents. Along with that, Jiangsu's copper smelters will maintain operating rates at 60%-70% due to power rationing, and smelters in Yunnan will also face difficulties in resuming production.

Among other metals, Chinese primary aluminium production fell 2.6% YoY to 3.2mt last month, as power rationing continued to disrupt domestic supply. However, for the first ten months of the year, output rose 5.1% YoY to a total of 32mt. Refined nickel output rose 1.5% MoM to stand at 14.5kt in October, with output from smelters in the Gansu province remaining stable. For zinc, refined output fell 12.3% YoY and 2.5% MoM to 499kt, whilst lead output fell 7.4% YoY and 6.5% MoM to 244kt in October.

Agriculture

The USDA's monthly WASDE report was a mixed bag for grains yesterday. The agency increased its estimates for US soybean stocks at the end of 2021/22 to 340m bushels, compared to a previous estimate of 320m bushels; while the market was expecting a number around 366m bushels. The inventory gains come on the back of lower exports rather than higher domestic production as widely expected. In fact, the USDA decreased US soybean production estimates from 4.45bn bushels to 4.43bn bushels. Export estimates were also revised down from 2.09bn bushels to 2.05bn bushels leading to a gain in inventory. The USDA left corn ending stock estimates largely unchanged at around 1.49bn bushels with both production and domestic demand estimates increasing by around 40-50m bushels. Similarly, there were only marginal changes in the wheat balance sheet, with inventory estimates increasing from 580m bushels to 583m bushels at the end of 2021/22.

Globally, soybean inventory estimates were revised down from 104.6mt to 103.8mt, mostly on account of a lower crop from Argentina. Soybean supply from Argentina was revised down from 51mt to 49.5mt due to lower acreage. For corn, the agency increased its inventory estimates from 301.7mt to 304.4mt on account of an upward revision in beginning stocks (+1.9mt) and production (+6.4mt). Argentina's production estimates were increased from 53mt to 54.5mt, while European corn production was also revised higher from 66.3mt to 67.9mt. Global demand for corn was revised up by around 5.6mt to 1,192.1mt, with the most notable increase coming from the European Union. For wheat, the agency revised down ending stocks estimates from 277.2mt to 275.8mt on account of small changes in beginning stocks, production and demand. The most notable change came from the European Union and Russia. The EU's demand and supply estimates were reduced by around 1mt to 107.5mt and 138.4mt respectively, whilst Russia's supply estimates were increased by 2mt to 74.5mt on the back of better yields.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

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