

The Commodities Feed: USD props up the complex

Your daily roundup of commodity news and ING views



Energy

After edging higher yesterday, oil markets have continued to strengthen this morning, with ICE Brent breaking back above US\$64/bbl. Weakness in the USD has provided some support. Reports that Iran will increase its uranium enrichment activity are also somewhat supportive, with it suggesting that a return of the US to the Iranian nuclear deal is likely to be some way off, and therefore the lifting of sanctions. API numbers released overnight were also mildly constructive for crude, with US crude oil inventories declining by 3.61MMbbls over the last week, larger than the roughly 2.7MMbbls draw the market was expecting. The API also reported that distillate fuel oil stocks fell by 3MMbbls, while gasoline inventories increased by 5.57MMbbls. If the EIA reports a similar gasoline number today, it would be the largest gasoline build since April last year.

Latest trade data yesterday also showed that crude oil imports into China averaged 11.74MMbbls/d over March, up 20% YoY, and the strongest monthly imports since September last year when imports averaged 11.85MMbbls/d. The strong YoY recovery shouldn't come as too much of a surprise, given the impact of Covid-19 lockdowns in early 2020.

Yesterday also saw OPEC release its monthly market report which showed that OPEC production in

March increased by 201Mbbbls/d to average 25.04MMbbbls/d over the month. The key driver behind the increase was Iran, who increases supply by 137Mbbbls/d MoM to a little over 2.3MMbbbls/d. If this is a trend that continues, obviously the impact from the potential lifting of sanctions would be less severe for the market. The group made minor changes to non-OPEC supply estimates, with supply estimated to increase by 930Mbbbls/d this year, compared to a previous estimate of 950Mbbbls/d. There were large revisions to demand estimates, with OPEC revising lower estimated global demand over 2Q21 by 520Mbbbls/d. However, this decrease was offset by increases in all other quarters this year, and overall OPEC expect demand to grow by 5.95MMbbbls/d YoY, compared to the previous forecast of 5.89MMbbbls/d.

Later today, the IEA will release its monthly oil market report and, as usual during these uncertain times with the demand outlook, the market will keep a close eye on any demand revisions the agency makes.

Metals

Aluminium led the base metals complex higher on Tuesday, aided by a weaker dollar. The trade-weighted dollar index slipped to a three-week low to below 92. LME 3M prices rose more than 1.3% yesterday, driven by strong momentum from the Shanghai onshore market as speculation rose on production restrictions in Xinjiang. However, the rally in copper was more modest, with the market facing headwinds from surging LME stocks in Europe, which have risen to 155kt, the highest since 2009. The nearby spreads have collapsed along with these rising stocks, with the cash/3M spread falling from a backwardation of US\$62/t in late February to around US\$2/t at the moment. In nickel, Nor Nickel said on Tuesday that it plans to boost output of nickel products at its Harjavalta plant in Finland, foreseeing the expanding market for battery materials used in electric vehicles. The plant is expected to increase its output to 75kt in 2023 and gradually increase it to 100kt by early 2026. The plant is currently producing 65kt of nickel products annually.

Agriculture

Both CBOT corn and soybean traded higher yesterday, with stronger import numbers from China and slower than expected corn planting progress in the US having buoyed sentiment. Preliminary trade data from China's Customs showed that corn imports into the country increased 438% YoY to 6.73mt over the first three months of 2021 whilst soybean imports were up by 19% YoY to total 21.2mt. The USDA also published its planting progress report, which showed that US 2021 corn plantings were 4% complete as of 11 April, slightly below expectations of around 6%, although to be fair it is still early days, with the planting season having just got underway.

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