The Commodities Feed: USD provides a boost to the complex

Your daily roundup of commodity news and ING views

Energy

Oil had its biggest daily price increase since March, with ICE Brent settling close to 5.5% higher yesterday. The rally was part of a broader risk-on move, with tapering doubts starting to grow ahead of Jackson Hole later this week. These doubts have weighed on the USD, which has provided good support to the broader commodities complex. Also helping the oil market was the report of zero Covid-19 cases in China for the first time since July. This suggests that the worst of the latest outbreak in China may be behind us. Concern about oil demand may now start to ease. Last week, the oil market come under significant pressure, clocking its worst weekly performance since October last year, so it was overdue a relief rally. Interestingly though, while there were big moves in the flat price for both Brent and WTI yesterday, time spreads were more static. The prompt Brent spread was actually marginally weaker.

An unfortunate deadly fire at a Pemex platform in the Gulf of Mexico has forced the operator to shut 125 wells, which has resulted in oil output falling by 421Mbbls/d. This is equivalent to around a quarter of Mexico's output. The aim of the company is to restore power supply by Wednesday, with the hope that production can resume soon after. An extended outage would likely be supportive for heavier grades of crude oil, with reduced output tightening the market for heavier crude oil.

Yesterday the US Department of Energy (DOE) announced that it will be selling up to 20MMbbls of crude oil from its strategic reserves for deliveries between 1 October and 15 December 2021. This planned sale is taking place in order to comply with legislation passed in recent years, rather than the DOE taking action because they believe the US market is tight.

Metals

The USD retreat and taper doubts helped to spur a rally across the metals complex. In addition, the Beijing health authority reported on Monday that there were no new locally transmitted cases of COVID-19 in China for the first time since July, suggesting that the latest outbreak has been brought back under control. The recent sell-off in copper may have found buyers from China, with significant cancelled warrants from LME Asian warehouses. The LME reported that cancelled warrants in Asia surged to 48kt on Monday, the highest since May this year, which will potentially lead to stock outflows. Meanwhile, China's Yangshan premium soared to over US$150/t after import arbitrage opportunities reappeared for onshore traders. These short-term dynamics may be interpreted as a real demand recovery from the summer lull. Expectations for a better demand outlook were reinforced by the PBoC vowing to keep credit growth stable. The PBoC also called for more credit support for the real economy. This may have added to recent market speculation that another RRR cut may be possible.

LME aluminium also received a boost amid a synchronous stock decline across London and the Chinese onshore market. LME aluminium stocks retreated to 1.3 million tonnes, levels last seen in early April. According to Mysteel, total primary aluminium stocks in China, including non-ShFE stocks, continue to decline, falling by another 10kt since Thursday to 734kt on Monday. Traders are also assessing supply-side risks as power shortages in China continue to bite and Chinese thermal coal prices jump. In addition, there are reports that Japanese aluminium buyers were offered a premium of US$230/t for 4Q21, 23% higher than 3Q21. It remains to be seen whether buyers will eventually agree to this level.

The latest data from the International Lead and Zinc Study Group (ILZSG) shows that the global zinc market remained in a marginal surplus of 36kt between January and June, which was lower than the 358kt surplus seen during the same period last year. Total refined production rose by 4.7% YoY to 6.97mt, whilst total consumption increased 10.5% YoY to 6.93mt in the first half of the year.

Agriculture

In its latest monthly crop monitoring report, the European Commission lowered its wheat yield estimates in the region for 2021. The Commission now expects wheat yields to be around 5.75t/ha compared to its earlier estimates of 5.82t/ha; although the yield is still well above the 5-year average of around 5.47t/ha. The Commission believes that frequent rains recently have hurt winter crops (though, mild temperatures and wet weather have been helpful for summer crops). Rain is believed to be helping the sugar beet crop, with sugar beet yield estimates increased from 73.5t/ha to 75t/ha.

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