

The Commodities Feed: USD pushes the complex higher

Your daily roundup of commodities news and ING views



Energy

The oil market surged higher yesterday with ICE Brent settling more than 5% up on the day and above US\$106/bbl. A weaker USD provided support to the market, along with the broader commodities complex. Specifically for oil, clearly the market has had time to digest President Biden's visit to the Middle East and come to the conclusion that it is unlikely that OPEC members will increase output more aggressively than planned in the short term.

Trade data from China shows that gasoline exports in June fell by 50% YoY to 730kt, which leaves exports over the first half of the year at 5.56mt, down 41.8% YoY. Diesel exports saw even steeper declines over the month, falling 86.1% YoY to 330kt in June, and this meant that cumulative exports over the first half of the year were 2.06mt, down 84.2% YoY. The continued pressure on refined product exports from China shouldn't come as too much of a surprise since China has aggressively cut refined product export quotas in recent years to target emissions and drive consolidation across the domestic refining industry. That said, the government did issue a further batch of refined product export quotas recently, which means that we could see a mini bounce in exports in the short term, but clearly the longer-term trend is downwards.

The EIA released its latest drilling productivity report yesterday, in which US shale oil production was forecast to rise by 136Mbbbls/d to 9.07MMbbbls/d in August. The bulk of this increase was expected to be driven (unsurprisingly) by the Permian, followed by Eagle Ford. The EIA also reported that the number of drilled but uncompleted wells (DUCs) continued to decline in June, falling by 26 over the month to leave the total amount of DUC inventory at 4,245, which is the lowest level seen since at least 2014. US producers have consistently drawn down this DUC inventory since mid-2020 with a decline of 4,565 since July 2020. Producers have relied on these DUCs to sustain production, given the relatively low drilling levels we have seen. In future, if we are going to see strong US production from the US, we will need to see increased drilling, as DUCs alone will not sustain this supply growth.

European gas prices continued their decline yesterday, which takes the total decline since last Wednesday to around 13%. And this is despite a significant amount of supply uncertainty over what happens with gas flows along the Nord Stream pipeline once annual maintenance comes to an end on Thursday. There were reports that Gazprom declared force majeure on flows to a number of European buyers over the last month, which would likely reflect the reductions we saw along Nord Stream prior to the annual maintenance.

China trade data showed that LNG imports remained under pressure in June, falling 26% YoY to total 4.82mt, while cumulative imports over the first six months of the year totalled 31.26mt, down 20.8% YoY. Lower Chinese demand for LNG this year would have been driven by the Covid-related lockdowns, whilst the higher price environment would have also weighed on demand. These lower import volumes from China will be a relief to Europe, given the region's move from Russian pipeline gas to LNG.

Agriculture

The latest trade data from China shows that corn imports dropped 38% YoY to 2.2mt in June, which left YTD imports down 11% YoY at 13.6mt. Whilst corn imports have softened from recent highs, corn inflows are still significantly higher than historical averages. China's wheat imports also dropped 31% YoY to 520kt over the month, while cumulative imports fell 8% YoY to 4.69mt over the first half of the year.

Reports suggest that ongoing discussions between Russia and Ukraine over the export of grain from Ukrainian ports has made some progress and a deal is possible. The EU's foreign policy chief, Josep Borrell was reported to be hopeful about a deal this week, which could see some grain cargoes shipped from ports over the coming weeks. If this occurs, it would help to shift inventory in Ukraine to the world market, which would help to loosen up the global balance. However, given the ongoing war, we remain cautious with regards to this development.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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