The Commodities Feed: WTI spread strength

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Energy

Oil prices came under pressure yesterday, dragged down by the broader weakness seen across the commodities complex. Weaker natural gas and coal prices would have taken away some of the support for the oil market. In addition, comments from the Russian president that OPEC+ was increasing output slightly more than agreed has probably not helped sentiment. However, we continue to believe that with inventories drawing for the remainder of this year, along with OPEC+ taking a cautious approach in increasing output, oil prices will remain well supported for the remainder of this year.

There are clear concerns over the inventory drain that we are seeing at the WTI delivery hub, Cushing. As mentioned yesterday, crude oil inventories at Cushing have fallen to their lowest levels since 2018 and stocks are quickly approaching the 30MMbbls mark. This tightness is reflected in the prompt WTI timespread, which has traded to a backwardation as high as US$1.25/bbl.

The latest data from Insights Global shows that refined product inventories in ARA increased by 157kt over the last week to total 5.12mt. Gasoil inventories saw the largest increase over the week, growing by 199kt to 2.19mt. However, gasoil inventories are still at more than a 5-year low for this stage of the year. Tighter middle distillate stocks globally and the expectation of strong demand this winter, suggests that middle distillate cracks should remain firm in the short term.

Metals

Collapsing coal prices in China sent shockwaves across metal markets, leading to some speculative liquidation. Aluminium led the way lower. LME 3M aluminium retreated below $3,000/t after having traded above this level for eight consecutive trading days. LME nickel erased all gains made on Wednesday. Tesla confirmed that it's shifting to lithium iron phosphate batteries for standard range Model 3 & Y vehicles globally, putting some pressure on nickel and cobalt.

While speculative activity fuelled by the power crunch may cool down for a bit now, there are little signs of easing restrictions for Chinese metals output. Jiangxi province just joined many other provinces to kick off with power rationing. This has not yet hit Jiangxi Copper, the second-largest copper smelter with over 1m tonnes capacity per year. We would expect some producers along the value chain to be affected, which may eventually lead to reduced demand for cathode or scrap.

World copper mine production increased by 3.6% YoY over the first seven months of 2021, with concentrate production increasing by around 5.5% YoY and solvent extraction-electrowinning (SX-EW) declining by about 4.3% according to the International Copper Study Group (ICSG). The group noted that the world refined copper balance in the first seven months of 2021 indicates an apparent deficit of about 138kt.

Agriculture

The monthly Grains Market Report from the International Grains Council was bearish for corn and soybeans, while moderately constructive for wheat. The council increased its estimates for corn inventory at the end of 2021/22 to 285.1mt compared to an earlier estimate of 281.5mt. This was largely driven by an upward revision in beginning stocks (+2.5mt to 276.2mt) and a marginal uptick in production estimates of around 1mt to 1210.1mt. Corn demand estimates were left unchanged at around 1,201.2mt. For soybean, the council increased inventory estimates at the end of 2021/22 by around 2.5mt to 59.8mt with the entire increase due to higher beginning stocks. Global soybean production estimates were left unchanged at around 379.5mt, while consumption estimates were marginally increased from 376.2mt to 376.4mt. For wheat, the council marginally lowered its inventory estimates at the end of 2021/22 from 276.9mt to 276mt due to higher demand estimates. The IGC now sees global wheat demand increasing to 783.5mt in 2021/22 compared to its earlier estimates of 782.6mt.

Weekly data from the USDA shows that US export sales of soybean surged during the week ending 14th October. The US sold around 2.88mt of soybean for the week, the largest weekly sales in around a year with China being the major buyer. Corn sales also continued to recover and increased to 1.27mt compared to 1.04mt a week ago.

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