

The Commodities Feed: Zinc supply woes

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Metals

The latest supply woes in zinc pushed LME 3m prices to a three-year high, hitting an intra-day high of \$3,440/t yesterday, whilst prices in Shanghai jumped to their highest in nearly 14 years. Nyrstar said it would slash zinc production at three smelters in Europe by up to 50% due to rising power prices and costs associated with carbon emissions. Prior to this, Nyrstar had already announced that it would cut zinc production at a Dutch plant due to rising power prices last month. We discussed this in detail in a [note released yesterday](#). As for copper, the LME cash/3m spread backwardation continued to move higher, reaching US\$95/t (highest since May 2014) as inventories continue to fall.

China released its preliminary trade data for metals, which shows that copper imports halted their five months of declines in September, as shipments held up by the coronavirus pandemic finally arrived. Total monthly shipments for unwrought copper rose 3% MoM to 406kt last month; however, they were still down 44% from September 2020. On a year-to-date basis, unwrought imports declined 19.5% YoY to 4.1mt in the first nine months of the year. Imports of copper concentrate stood at 2.11mt (highest since March) in September, up 11.9% MoM, however, remained slightly down when compared to the same month last year. Cumulatively, imports rose 6.3% YoY and totaled 17.4mt in the first nine months of the year. Iron ore imports declined 1.9%

MoM to total 95.6mt last month, while fell 3% YoY to total 842mt over the first nine months of the year. On the export side, China's unwrought aluminium and aluminium products shipments rose 15% YoY to 492kt (highest since March 2020) in September. In the first nine months, total exports were up 14.3% YoY to total 4.1mt. Meanwhile, cumulative exports of steel products rose 31.3% YoY to total 53mt over the first nine months of the year.

China has ordered steel mills in Beijing, Tianjin and Hebei province to trim output during the upcoming heating season starting from mid-November to mid-March. In addition, mills must also meet annual output reduction targets by the year-end. Mills are also required to reduce crude steel production from 1st January to 15th March by at least 30% from the same output period last year.

Energy

The oil market has edged higher in early morning trading in Asia today, despite the API reporting overnight a larger-than-expected increase in US crude oil inventories. API numbers show that US crude oil inventories increased by 5.21MMbbls. If the EIA reports a similar number later today, it would be the largest build since March. However, the market seems more focused on the fairly large draws seen in Cushing, as well as on the product side. Cushing crude oil inventories fell by 2.28MMbbls, while gasoline and distillate fuel oil stocks declined by 4.58MMbbls and 2.71MMbbls respectively.

OPEC released its latest monthly market report yesterday. The group revised lower its demand growth estimates for this year from 5.96MMbbls/d to 5.82MMbbls/d. The slight revision lower was due to lower-than-expected consumption in the first three quarters of the year. OPEC still believes that we will see stronger demand over the final quarter of the year, particularly given the potential for gas to oil switching. Their demand growth forecast for 2022 was left unchanged at 4.15MMbbls/d, leaving demand to average 100.76MMbbls/d next year. On the supply side, OPEC production increased by 486Mbbls/d MoM in September to average 27.33MMbbls/d. The bulk of the increase was driven by Saudi Arabia, Nigeria and Iraq. As for non-OPEC supply, the group revised lower output growth from 920Mbbls/d to 660Mbbls/d in 2021. A large part of this was driven by a revision lower in US output, following Hurricane Ida. However, for 2022, the group slightly increased its expectations for non-OPEC supply growth, and now forecast it to grow by 3.02MMbbls/d. Russia and the US are key to this increase, while Brazil, Norway and Canada are also expected to see output grow. This leaves the call on OPEC production at around 28.9MMbbls/d for 2022, compared to current output of a little over 27.3MMbbls/d.

The latest trade data from China shows that crude oil imports in September averaged 10.03MMbbls/d, which is down 15% YoY and also 5% lower MoM. This also leaves cumulative oil imports so far this year down 6.9% YoY. Reduced flows have been driven by lower allocation of import quotas, reduced run rates and also the drawing down of inventory in the current high price environment.

Agriculture

Fortnightly data from UNICA shows that sugar output in Centre-South Brazil dropped 19.1% YoY to 2.32mt over the 2nd half of September. Sugar cane crushing in CS Brazil was down 11.4% YoY to total 35.8mt with a large part of sugarcane diverted to ethanol production on improved margins due to stronger energy prices. The sugar mix dropped to 43.7% over the period, compared to 46.2% a year ago. CS Brazil's sugar production was still better than the roughly 2.22mt the market

was expecting for the period. Cumulative production so far this season has fallen by 9% YoY to 29.2mt, while sugarcane crushing is down 6.9% YoY to total 467.4mt. UNICA also reported that around 36 mills had ended the crushing season by the end of September with another 52 likely to end the cycle over the first half of October. This is an earlier than usual finish for mills, reflecting the lower availability of cane this season.

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