The Commodities Feed: US rigs continue to fall

Your daily roundup of commodity news and ING views

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Energy

Oil markets are under pressure once again this morning, with ICE Brent down more than 1% at the time of writing. Although the weakness in the prompt NYMEX WTI contract dwarfs this move, with the May-20 contract down close to 20% at one stage this morning. We wouldn't read too much into this though, given that the May contract is set to expire tomorrow, and the bulk of the open interest and volume is already in the June contract.

There was little in the way of developments over the weekend for the oil market, although data from Baker Hughes on Friday did show another sizeable decline in the US oil rig count to 438 rigs, a fall of 66. This is the biggest weekly decline since February 2015. Over the last month, the total number of active oil rigs in the US has fallen by more than 35%, highlighting the impact that the current low ol price is having on drilling activity. This drilling slowdown will translate into lower production in the coming months.

On the data front, it is set to be a fairly quiet week for the oil market. We have the usual weekly API and EIA numbers on Tuesday and Wednesday. Then on Thursday, we will get Chinese March trade data, which includes a breakdown of oil product trade.

Metals

Base metals mostly had a strong close last week, with a recovery in industrial activity in China and mine supply disruptions elsewhere continuing to offer support to markets.

In China, inventory drawdowns across metals and increased premia in the physical market have sparked optimism over a demand recovery. This has seen the Shanghai Futures Exchange (ShFE) market outperform the LME market. Copper inventories in China fell by 15kt over the last week to total 303kt as of 17th April. The net outflows for the month so far stand at 61kt, quite a bit higher than the 25kt outflows seen over the same period last year. Meanwhile, aluminium inventories saw outflows of 25kt over the week, to take total stocks to 486kt. Among other metals, zinc and lead stocks reported marginal outflows of 6kt and 0.4kt respectively over the week. Inventory drawdowns coupled with expectations of a VAT cut have kept nearby spreads tight across the local market. The physical premium for copper has risen to a multi-year high of CNY180/t, as well as the Yangshan premium, which has reached US$81/t, the highest in seven months.

As for aluminium, the recent rally looks premature, despite a marginal recovery in demand from China. According to consultancy firm, Antaike, exports of aluminium semis and finished products will be hit hard from April onwards. Exports (semis + finished products) account for approximately one-third of total Chinese primary consumption, and so protracted lockdowns ex-China do not bode well for export activity. Meanwhile, the latest data from the National Bureau of Statistics (NBS) shows that primary aluminium output in China rose by 2.3% YoY to 3mt in March, while cumulative output during the first three months of the year totalled 8.8mt, which was also 2.7% higher YoY. Meanwhile announced curtailments only started from the end of March, and so any impact may only be shown in the April number.

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