US homebuilding rises; jump in permits hints at green shoots

Single-family starts rise 0.1%; multi-family jump 15%

WASHINGTON: US homebuilding increased less than expected in May, but a strong rebound in permits for future home construction suggested the housing market was starting to emerge from the COVID-19 crisis along with the broader economy.

Other data on Wednesday showed applications for loans to buy a home surged to a near 11-1/2-year high last week. The reports followed on the heels of data on Tuesday showing a record surge in retail sales in May. Employers hired a historic 2.5 million workers last month. Activity, however, remains well below pre-COVID-19 levels and economists warn it could take even a decade for the economy to fully recover from the global pandemic. Federal Reserve Chair Jerome Powell also warned on Tuesday of the long road to recovery. The economy slipped into recession in February.

"Housing is a leading economic indicator and it is pointing the way forward but there is a limit to growth when the economy has to drag along the millions and millions of unemployed workers displaced in this pandemic recession who won't be seeing paychecks anytime soon," said Chris Rupkey, chief economist at MUFG in New York.

Housing starts rose 4.3 percent to a seasonally adjusted annual rate of 974,000 units last month, the Commerce Department said. The increase recouped only a fraction of the more than 40 percent cumulative decline in homebuilding in March and April. Starts dropped 23.2 percent on a year-on-year basis in May.

The rise in starts last month was tempered by a 0.1 percent gain in single-family homebuilding, which accounts for the largest share of the housing market, to a rate of 675,000 units. Steep decreases in homebuilding the Midwest and populous South offset robust increases in the West and Northeast. Starts for the volatile multi-family housing segment jumped 15.0 percent to a pace of 299,000 units.

With starts still in a deep rut, economists expect a sharp decline in homebuilding in the second quarter, in line with projections for the steepest contraction in gross domestic product since the Great Depression.

The Atlanta Fed is forecasting GDP falling at 45.5 percent rate in the second quarter. The economy shrank at a 5 percent pace in the January-March quarter, the deepest contraction since the 2007-2009 Great Recession. "The drop in housing construction in the second-quarter GDP report is likely to be jaw-dropping," said Conrad DeQuadros, senior economic advisor at Brean Capital in New York.

NEW YORK: In this file photo an aerial view is seen of a construction worker roofing an apartment home in Uniondale, New York. New home construction in May rose 4.3 percent compared to April, the Commerce Department said.—AFP

Rising demand

Stocks on Wall Street were lower in volatile trading as a record rise in coronavirus cases in six states hurt sentiment after a three-day rally. The PHLX housing index fell. The dollar strengthened against a basket of currencies. US Treasury prices rose.

Permits for future home construction rebounded 14.4 percent to a rate of 1.220 million units in May, reinforcing economists' expectations that the housing market will lead the economy from the recession, driven by historically low mortgage rates.

Though the housing market accounts for about 3.3 percent of gross domestic product, it has a larger footprint on the economy. A separate report from the Mortgage Bankers Association on Wednesday showed applications for loans to buy a home increased 4 percent last week to their highest level since January 2009.

Mortgage applications have climbed back above pre-COVID-19 levels. Signs of recovery in the housing market were underscored by a survey of Tuesday showing single-family homebuilders very upbeat in June about conditions in the industry. —Reuters

Why tradable value of ME crudes matters to buyers in Asia

By Dan Colover

The crude oil market has witnessed some of the highest volatility in living memory, casting a spotlight on the value of different benchmarks and liquidity and yield of crude that is delivered into them. Typically, the value of a grade of crude oil is defined by the underlying value of the products that are produced when it is refined. The refinery yields of different crude grades and underlying refinery economics are critical in analyzing the competitiveness of competing crudes. Crudes are not homogenous and there are hundreds of different types, each with their own qualities and characteristics. The international market has settled on using certain benchmarks, against which the values of crudes are measured.

For a crude benchmark to be robust it must have a variety of often disparate characteristics. These include abundance in production volume, steady quality, diversity of buyers and sellers, geographic relevance and absence of interference, from political forces for example. Many crudes around the world share some of these characteristics but only a handful fulfill all criteria. Within the Middle East reference prices include Platts Dubai, Platts Oman and DME Oman, each having different characteristics. Both Platts Dubai and Platts Oman offer an alternative delivery mechanism, which means that more than one crude grade can help form the daily value of the assessment and ensure sufficient liquidity for the benchmark. For Platts Dubai, this includes the alternative delivery of Oman, Upper Zakum, Al-Shaheen and Murban. For Platts Oman, Murban is also acceptable as an alternative deliverable grade.

Total deliverable crude on a daily basis for Platts Dubai can therefore be calculated as the daily production of the five streams of crude that go into the assessment. Clearly, not all of this volume will be freely available on the spot market on any given day. Some will be diverted into domestic refineries and some cargoes may have destination restrictions. Yet the liquidity pool remains deep. A conservative estimate of crude available for delivery into Platts Dubai is 2.75 million b/d, while 1.75 million b/d is available for Platts Oman.

The DME Oman futures contract is underpinned by Oman's 950,000 b/d production and after allowing for domestic refinery consumption, around 800,000 b/d is available – slightly more than a cargo and a half of crude per day.

Crude oil grades from the Middle East are sought by complex refiners in Asia, which typically blend different crudes to customize their preferred slate required for their processing units. As a result, the underlying value of these different grades is critical when a refiner is evaluating which grade to purchase as part of their monthly requirements.

Changes in value of different crude grades can be linked to the value of the products that the crude makes, with gasoline historically king of the barrel. Murban, which is among the lighter and sweeter crude grades across the Middle East, has the highest yield of gasoline among all the crudes in the Platts Dubai and Platts Oman alternative delivery mechanisms. This explains why it has typically been valued the highest.

However, with gasoline demand decimated due to Covid-19, Murban was more competitively valued versus the other grades as its yield values shifted to reflect the economics of refining the grade. Oman crude is mostly sold to China, which arguably has different refining economics to other end-users. Critically, Beijing adjusts domestic retail prices for oil products once crude oil falls below $40/b. The breakdown of traditional refining economics focusing on the yield value of a particular crude have led to Oman crude trading away from other grades in the region. With Oman being the only deliverable into DME Oman, the contract diverged and moved substantially higher relative to the Platts Dubai and Platts Oman assessments. While it averaged 11 cents/b above Platts Oman in February, the difference leapt to over $3.15/b in April and May.

This increased spread has likely impacted the economics for refiners in Asia processing grades that are priced against these different markers. The yield for the different crudes needs to be considered against the price of the different benchmarks to examine their relative competitiveness from a refinery's perspective. The availability of suitable alternative grades that can be delivered into a benchmark ensures tradable value and stable prices that are useful for all producers and buyers. Not just a single consumer of a single grade of oil. Note: Dan Colover is Head of Middle East Market Engagement, S&P Global Platts