

## The Commodities Feed: All eyes on OPEC+

OPEC+ will meet this weekend and are expected to extend their additional voluntary supply cuts. Anything less will disappoint the market



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### Energy – OPEC+ meeting

Oil prices came under pressure yesterday despite a supportive EIA weekly inventory report. Instead, the oil market got caught up in the broader weakness in the complex, which saw Brent settle more than 2% lower on the day. The OPEC+ meeting scheduled for Sunday will also likely see some traders taking risk off the table.

The market expects OPEC+ to fully roll over its additional voluntary supply cuts into the second half of the year. Anything less will put further pressure on prices in the short term. It would be more difficult for the group to surprise to the upside. Agreeing on deeper cuts would be challenging, particularly when a handful of producers are already producing above their target levels. However, there are reports that members are considering extending cuts into 2025. A full rollover of cuts is important for sentiment, but fundamentally it is not needed as it will push the oil market into a deep deficit over the summer, a peak demand period.

US commercial crude oil inventories fell by 4.16m barrels over the last week, according to EIA data. A 505k b/d WoW decline in crude oil exports and a 106k b/d increase in imports was not enough to

avoid a draw. Refinery activity increased over the week, rising 2.6pp to 94.3% - the highest level since August last year. Stocks also declined at the WTI delivery hub, Cushing, where crude oil inventories fell by 1.77m barrels. For refined products, stronger refinery activity meant gasoline and distillate fuel oil stocks increased by 2.02m barrels and 2.54m barrels, respectively. The 4-week average implied gasoline demand increased by 133k b/d WoW, a trend which should continue as we move into the summer driving season.

Saudi Arabia should publish its official selling price (OSP) for July crude loadings next week. Despite expectations for OPEC+ to rollover supply cuts, it is expected that OSPs for Arab Light into Asia will be cut due to the weakening in the Brent-Dubai spread over the last month.

European natural gas prices strengthened further yesterday. Front-month TTF futures settled 3.45% higher on the day. Concern over increased competition for LNG from Asia provided some support to the market, while planned maintenance work in Norway continues to weigh on flows to Europe. Norwegian gas flows to Europe in May averaged 293mcm/day, down from an average of 320mcm/day in April.

Germany will end its gas storage levy from January 2025, which essentially taxes natural gas that is piped through Germany. Several CEE countries have argued that the tax makes it more expensive for them to diversify away from Russian gas. The move will be welcome news to the region, particularly as it is widely expected that Ukraine will not extend its transit deal with Russia, which expires at the end of this year, forcing several CEE countries to look for alternatives to Russian pipeline gas.

US natural gas prices sold off for a second day. Front-month Henry Hub futures settled a little more than 3.5% lower yesterday after the EIA reported a larger-than-expected build in US natural gas storage. Storage increased by 84bcf, above expectations of 78bcf, but below the 5-year average of 104bcf. While storage is still very comfortable at almost 2.8tcf, the gap to the 5-year average continues to narrow with a lack of growth in domestic gas production.

## Metals – Risk-off sentiment weighs on the complex

Industrial metals came under pressure yesterday as the recent rally in metals ran out of momentum. The market is also likely cautious ahead of US inflation data later today. LME copper led the declines, falling more than 3% over the day. We have argued for some time that the scale of the move higher in copper had become detached from short-term fundamentals. Robust Chinese refined copper output, seasonal higher SHFE copper stocks and negative refined import premiums for China suggest a less supportive market in the near term.

There are suggestions that Japanese aluminium buyers were offered a premium of US\$175/t for 3Q24, up from US\$145-148/t this quarter. The increase in premiums reflects tighter supply in Asia primarily due to stronger European demand.

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