The Commodities Feed: All is not well within OPEC+

Growing disagreements between OPEC+ members have oil sitting out the broader risk-on move seen across financial markets as tariff tensions ease

Source: Shutterstock

Energy – OPEC+ struggles

While a risk-on move lifted most risk assets yesterday, oil was left behind thanks to OPEC+ discord. ICE Brent settled almost 2% lower on the day amid concerns about aggressive supply hikes from OPEC+. This comes after Kazakhstan said that it's unable to lower oil output and plans to prioritise domestic interests over OPEC+ obligations. Kazakhstan has been pumping well above its production target following an expansion project at the Tengiz field. This led to reports that other OPEC+ members are pushing for aggressive supply hikes in June. Earlier this month, OPEC+ surprised the market by increasing supply by 411k b/d in May, more than the 138k b/d planned. This larger-than-expected increase comes as demand estimates are being cut amid ongoing trade tensions. Further disagreement between OPEC+ members is a clear downside risk, as it could lead to a price war.

However, as [we pointed out earlier in the week](), the prompt ICE Brent timspread remains well supported. It's trading at a backwardation of near US$1/bbl, suggesting tightness in the spot market.

Energy Information Administration data yesterday showed a modest increase in crude oil inventories, with stocks growing by 244k barrels over the last week. This was significantly at odds with the 4.75m barrel decline that the American Petroleum Institute reported the previous day. Inventory changes for refined products were more constructive, with gasoline and distillate stocks falling by 4.48m barrels and 2.35m barrels, respectively. The move was driven by stronger implied demand as gasoline demand increased by 952k b/d week on week. Gasoline inventories have fallen for eight consecutive weeks, leaving them at the lowest level since December. The RBOB crack moved higher on the back of this release.

Metals - Risk-on mode

Copper and other industrial metals continued to rise yesterday amid hopes of a de-escalation in trade tensions between the US and China. This was after President Trump floated "substantial" tariff cuts. Also, Trump claiming he has no intention of firing Federal Reserve Chair Jerome Powell added to the risk-on tone in broader financial markets. On the LME, speculators increased their net long in copper by 33,352 contracts to 98,765 contracts, according to exchange data. The net-long position was the most bullish on record going back to January 2018. As for copper supply, the Antamina copper-zinc mine in Peru was shut down for safety reasons following a fatal incident.

In precious metals, gold fell from a record high above $3,500/oz reached earlier in the week on Trump's softer stance on China and the Fed. Prices are still up by more than 25% so far this year, supported by market volatility and ever-changing US policies. The rally has also been supported by increased flows into gold ETF holdings and central bank buying.

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