

The Commodities Feed: Further US SPR purchases

The oil market had a strong end to the week following the extension of Saudi voluntary cuts earlier in the week. For this week, markets will be focused on US CPI data on Wednesday, whilst specifically for the oil market, we have the IEA and OPEC oil market reports released later in the week



Source: Shutterstock

The oil market managed to pull off a second consecutive week of gains with ICE Brent settling almost 4.8% higher last week. Cuts from both Saudi Arabia and Russia have provided some support, although the market will have to continue to contend with macro uncertainty, which has capped the market over the last couple of months. The recent action taken by Saudi Arabia will likely provide some comfort to longs as it sends the signal that the Saudis are committed to putting a floor under the market. The latest positioning data shows that speculators increased their net long in ICE Brent by 25,106 lots over the last reporting week to 184,906 lots as of last Tuesday. This move was predominantly driven by fresh longs entering the market, with the gross long increasing by 16,881 lots. Meanwhile, for NYMEX WTI, speculators increased their net long by 23,820 lots to 95,363 lots. This was driven almost exclusively by short covering. At 112,155 lots, the

gross short in WTI is still sizeable and so with the right catalyst, there is the potential for a short-covering rally.

Another factor which is providing some degree of support to the market is the refilling of the US Strategic Petroleum Reserve (SPR). On Friday the Department of Energy (DoE) announced that it will be looking to purchase around 6MMbbls of US sour crude oil for delivery in October/November. Up until now, the DoE has successfully tendered for 6.3MMbbls, with this volume set to be delivered in August and September. There had been reports that the DoE was looking to buy roughly 12MMbbls this year, and if we see the total volume awarded in the latest announcement, that would get us to this 12MMbbls already.

A large explosion at a Mexican platform, which was sadly deadly, saw Pemex reduce oil output by 700Mbbbls/d. However, the bulk of these shut-ins appears to have been precautionary and 600Mbbbls/d of this output has already returned, according to the company.

Drilling activity in the US continues its decline with the latest data from Baker Hughes showing that the number of active US oil rigs fell by five over the week to 540. This is the lowest number since early April 2022. The number of active oil rigs in the US has fallen by 81 since the start of the year. Lower drilling activity suggests more limited supply growth. And this is a trend that we have seen in the EIA's US crude oil supply forecasts with less than 200Mbbbls/d of US supply growth expected in 2024. The EIA will release its latest Short-Term Energy Outlook on Tuesday, which will include US production forecasts for the remainder of 2023 and 2024.

In addition to the EIA's Short-Term Energy Outlook release on Tuesday, both OPEC and the IEA will release their latest monthly oil market reports on Thursday. Given the macro uncertainty, the market will likely be focused on any changes to demand forecasts in both reports. Away from energy markets, the big macro release this week will be US CPI numbers on Wednesday, which will likely further shape market expectations on how much more monetary tightening we could see from the US Federal Reserve in the months ahead.

Authors

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.