

Article | 23 July 2025

COMMODITIES DAILY

The Commodities Feed: Has the oil market surplus been delayed?

Oil prices edged lower yesterday as tariff concerns linger with the 1 August deadline fast approaching



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Energy – Oil surplus and timespreads

Oil prices edged lower yesterday with ICE Brent settling 0.9% lower on the day amid concerns over tariffs, with the 1 August deadline fast approaching. Meanwhile, expectations that the market will move into a large surplus later in the year are generating additional headwinds for the market.

However, one must ask whether the large surplus the market expected in the fourth quarter will materialise. While our oil balance indicates that the oil market will be in a large surplus in 4Q25, the ICE Brent forward curve tells a slightly different story. If we cast our minds back 2 months, the forward curve had an interesting shape. It was in backwardation through until the November 2025 contract and then in contango from that point on. This reflected expectations for a surplus market from the fourth quarter onwards.

Fast forward to today, and the shape of the forward curve has changed quite drastically. It's in backwardation into early next year, then essentially flat for a large part of 2026, before

moving into a shallow contango through 2027. The forward curve is not screaming that there will be a large surplus of the kind our balance sheet and many others show. The Dec-25 – Dec-26 spread also highlights this. The spread is moving from a contango of more than US\$1.80/bbl in early May to a backwardation of around US\$0.65/bbl currently. While we believe the surplus will still hit the market, relatively low inventories offer some support not just to timespreads, but also the flat price.

Numbers overnight from the American Petroleum Institute show that US crude oil inventories fell by 577k barrels over the week, while crude stocks at the WTI delivery hub, Cushing, increased by 314k barrels. Gasoline inventories fell by 1.2m barrels as we move through the summer months, a period of seasonally stronger demand. Distillate stocks increased by 3.5m barrels. This will offer some relief to the middle distillate market, which has been looking increasingly tight. The more widely followed inventory report from the Energy Information Administration will be released later today.

European natural gas prices were little changed yesterday, after coming under downward pressure over the last week. EU gas storage continues to tick higher, with it now more than 65% full, down from the 5-year average of 74%. A recovery in Norwegian gas flows to Europe following an unplanned outage last week has eased supply concerns. We still believe that European gas prices will need to remain well supported through the year to ensure enough LNG is brought into the region ahead of the 2025/26 winter.

Metals – Copper eyes \$10,000 level again

LME copper is nearing \$10,000/t again, as the metal did earlier this month, on signs of improving demand in China. Prices surged past \$9,920/t in yesterday's trading. Chinese Customs data earlier this month showed imports of refined copper jumped 15% in June from the previous month. China's imports of US copper scrap slumped to the lowest in 21 years last month, with a 50% tariff on copper set to take effect in two weeks. Shipments plunged below 2,000 tonnes. This is down from 14,023 tonnes in May and below the monthly average of around 36,600 tonnes last year, Chinese customs data show. The US is a net exporter of copper scrap, and China has been the top destination for US exports. Questions remain about the details of the upcoming copper tariffs. There are still no details on whether the duties would apply to all copper products or whether there will be any exemptions. For example, aluminium scrap is excluded from the latest tariffs.

In other metals, iron ore jumped to a five-month high on China's announcement of a mega hydropower dam to be built in Tibet. It's expected to boost demand for industrial metals. Prices were also lifted amid supply-side reforms for China's steel industry.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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