

# The Commodities Feed: Oil dips following hawkish comments from Fed Chair Powell

The oil market has been unable to escape the pressure from a more hawkish Federal Reserve. And this is despite a supportive inventory report from the Energy Information Administration (EIA)



Jerome Powell, Chair of the Federal Reserve, giving his congressional testimony on 22 June 2023

## Energy – Fed talk pressures the energy complex

The oil market buckled yesterday as a result of [further hawkish comments](#) from Federal Reserve Chair Jerome Powell during his second day of congressional testimony. ICE Brent fell almost 3.9% on the day towards US\$74/bbl. And this weakness has continued this morning. A more hawkish Fed overshadowed what was a fairly constructive EIA report. US commercial crude oil inventories fell by 3.38MMbbls over the last week, more than the 1.2MMbbls draw the American Petroleum Institute (API) reported the previous day and more than the market was expecting. Crude oil exports played a part in this draw, rising by 1.27MMbbls/d WoW to 4.54MMbbls/d. On the product side, small builds of 479Mbbls and 434Mbbls were seen in gasoline and distillate fuel oil respectively. In addition, implied US oil demand (total product supplied) hit 20.93MMbbls/d over the week – the highest number seen since December.

Middle distillates remain well supported with the prompt ICE gasoil crack remaining above US\$20/bbl, whilst the prompt time spread remains in deep backwardation. The latest data from

Insights Global show that gasoil inventories in the Amsterdam-Rotterdam-Antwerp (ARA) region continue to decline with them now standing at 2.04mt, which is below the five-year average and levels not seen since the start of the year. Refinery outages appear to be driving this tightness, which should continue to support middle distillates at least in the short term.

There is very little on the calendar today for energy markets. Baker Hughes will release rig count data and if it continues to follow the trend seen so far this year, we can expect a further decline in drilling activity. Higher costs have likely contributed to slower drilling activity. The latest Dallas Fed Energy Survey shows that 60% of producers see drilling and completion costs per well to end this year higher than where they ended 2022.

Today's other regular release on the calendar is the latest positioning data from the Commodity Futures Trading Commission (CFTC) and ICE. Given the move in the oil market over the last reporting week and the increase in open interest, we could see the net speculative long in ICE Brent having grown over the week. This is even more the case for ICE gasoil, where open interest has increased from a little under 706k lots to more than 720k lots over the reporting week.

## Metals – LME copper on-warrant stocks decline

Recent LME data show on-warrant copper stock outflows of 19,175 tonnes, leaving total on-warrant stocks at 30,125 tonnes, the lowest since October 2021. Cancelled warrants rose by 14,850 tonnes to 50,275 tonnes, while total exchange inventories fell by 4,325 to 80,400 tonnes.

In zinc and lead, data from the International Lead and Zinc Study Group (ILZSG) show that the global zinc market remained in a supply surplus of 137kt in the first four months of the year compared to a supply surplus of 156kt a year earlier. Total refined production rose by 1.2% year-on-year to 4.56mt, while total consumption rose by 1.6% YoY to 4.42mt between January and April 2023. As for lead, total production reported gains of 2.2% YoY to 4.09mt, while consumption remained almost flat at 4.15mt over the first four months of the year. The lead market was estimated to have seen a supply deficit of 46kt between January and April, lower than the 122kt deficit during the same time last year.

As for nickel, the latest data from the International Nickel Study Group (INSG) show that the global nickel market remained in a supply surplus of 20,500 tonnes in April, compared to a marginal deficit of 2,600 tonnes in the same period last year. In its recent bi-annual press release, the group forecast a surplus of 239kt for the global market this year.

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