

The Commodities Feed: Oil finds support

Oil prices strengthened further yesterday following the recent ratcheting up of tensions in the Middle East, while European gas prices came under pressure - a long overdue correction amid bearish fundamentals



Source: Shutterstock

Energy – Buzzard field outage

Oil prices strengthened further yesterday. ICE Brent rallied 1.35%, taking Brent back above \$84/bbl, to its highest level since 1 May. Tensions in the Middle East have grown in recent days with developments between Israel and Hamas, while the Houthis have carried out another attack on a commercial vessel in the Red Sea. There could also be some positioning ahead of the OPEC+ meeting this weekend. Members are expected to fully rollover their additional voluntary cuts. High expectations of a full rollover mean that OPEC+ needs to ensure it does not disappoint the market, otherwise, it risks an aggressive pullback in prices.

In the UK's North Sea, CNOOC reported an unplanned outage at its Buzzard oilfield. According to CNOOC, the Buzzard field has a capacity of 80k boe/d. Buzzard is the largest field feeding the North Sea Forties crude stream, one of the grades that make up the Brent benchmark. It is unknown how long the outage will last, but this stoppage is separate from a planned 14-day outage in August for maintenance.

The new 650k b/d Dangote refinery in Nigeria plans to start exporting diesel in June. This will come at a time when global middle distillate markets are becoming increasingly comfortable and have seen significant weakness. Further supply will likely keep pressure on middle distillate cracks. However, positioning data suggests that speculators believe that middle distillates have bottomed. The latest data shows that speculators increased their net long by 15,440 lots over the last reporting week to 54,046 lots as of last Tuesday.

European natural gas prices came under significant pressure yesterday. Front-month TTF futures settled 4.85% lower on the day. A pullback in European gas prices has been overdue with recent price action detached from fundamentals. While there have been concerns over Russian pipeline flows to Austria, maintenance in Norway and strong Asian LNG demand, the storage situation remains very comfortable. The latest data from GIE shows that European storage is more than 69% full, well above the 5-year average of 56%. We still expect storage to be close to 100% full ahead of next winter. In the absence of any significant supply shocks, prices still have room to move lower. Our third quarter TTF forecast is EUR25/MWh.

Metals – Further support measures boost metals

After China announced further support measures for its property sector, base metals rallied yesterday. Large cities, including Shanghai, reduced requirements for downpayment. Shanghai cut downpayment requirements by 10pp to 20% for first-time home buyers and 30% for second homes. This follows support measures announced earlier in the month, which included providing funding to local governments to buy unsold homes. LME aluminium led the gains, up more than 2.5% on the day.

Agriculture – Wheat supply concerns

CBOT wheat futures extended their upward rally yesterday on the back of a worsening supply outlook from key producers -Russia, Australia, and Ukraine. Recent reports suggest that cold and dry weather conditions in Russia have reduced 2024/25 production estimates, while dry weather conditions in Ukraine are also threatening crop conditions. In Australia, the Western Australia Grain Association revised its wheat planting estimate down to 4.7m hectares from an earlier projection of 5m hectares.

The USDA's weekly export inspection data for the week ending 23 May show that US soybean and wheat shipments rose while corn exports slowed over the last week. US weekly inspections of corn stood at 1,077.3kt, lower than the 1,226.2kt in the previous week and 1,346.4kt reported a year ago. For wheat, export inspections stood at 398.9kt, up from 228.2kt last week and 391.3kt for the same period last year. Soybean export inspections stood at 212.1kt, higher than 192.2kt from a week ago but down from the 256.6kt reported a year ago.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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