

The Commodities Feed: Oil looking for a floor

The macro picture continues to dictate oil price action. However, fundamentals later this year remain constructive



Source: Shutterstock

Energy - Oil fundamentals still supportive

The oil market is set for its third consecutive week of declines over growing demand concerns. At US\$72.50/bbl, ICE Brent is down almost 9% over the course of the last week. Sentiment clearly remains negative, which suggests that there could be some further downside in the near term, although, we would expect the market to find good support near the March lows of around US\$70/bbl. While sentiment is negative at the moment, the market is in oversold territory and our balance sheet still shows that the market will be in deficit over 2H23, which should drive prices higher.

OPEC+ has announced that their next meeting in Vienna on 3-4 June will be held in person. The last time the group held an in-person meeting was back in October last year when the group announced that they would reduce production targets by 2MMbbls/d. Clearly, if the current downward trend continues in prices, the group would likely be forced to make further supply cuts.

Saudi Arabia lowered its official selling prices (OSPs) for all grades of its crude oil into Asia for June.

The OSP for Arab Light into Asia was lowered by US\$0.25/bbl MoM to US\$2.55/bbl over the benchmark. Meanwhile, all grades into Europe were increased for the month, while most grades into the US were left unchanged with the exception of Arab Light, which was cut by US\$0.50/bbl. Lower OSPs will be helpful for Asian refiners, who have been dealing with weaker margins recently.

The latest data from Insights Global shows that refined product inventories in the ARA region increased by 318kt over the week to 6.26mt. The increase was driven by fuel oil and gasoil. Stocks grew 171kt and 109kt respectively. At 2.35mt, gasoil inventories remain above the 5-year average. In Singapore, refined product stocks fell by 2.27MMbbls over the week to 43.96MMbbls. This was largely a result of a fall in residual fuel oil inventories.

Agriculture – Black Sea grain deal uncertainty

Uncertainty in the wheat market remains due to the Black Sea grain deal. The deal is set to expire on 18 May and discussions are expected to take place today with the hope that the deal is extended sometime next week. Recent Russian accusations of a Ukrainian drone attack on the Kremlin raise concern over Russia's willingness to extend the deal.

The latest data from the International Coffee Organization shows that global coffee exports stood at 12.02m bags in March, down 9.3% YoY. This includes Arabica exports of 6.8m bags (down 14% YoY) and Robusta exports of 5.3m bags (down 2.2% YoY). Cumulative exports between October 2022 and March 2023 stood at 62.3m bags, down 6.4% YoY.

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>.