

The Commodities Feed: Oil rally runs out of steam

The recent rally in oil appears to be running out of momentum with little in the way of fresh catalysts



Oil prices are trading softer this morning, with further talks between the US and Iran planned for Thursday

Energy - Oil rally fades

The rally in oil has started to fade with the market in overbought territory and little in the way of a fresh catalyst to keep the upward momentum going. ICE Brent settled a little more than 1.6% lower on the day - the largest daily decline in almost a month, leading to Brent closing just below US\$86/bbl. The market has recouped some of these losses in early morning trading today. The Fed's decision to leave policy rates unchanged at its meeting yesterday was no surprise. And while the Fed maintained a forecast for three cuts this year, it lowered its forecast from four to three cuts for 2025. The prospect of rates staying higher for longer should provide some headwinds to risk assets, including oil. That said, looking at broader price action (gold, equities, USD and treasuries) following yesterday's meeting, the market appears to be more focused on what the Fed may do this year.

The EIA's weekly inventory report contained little in the way of surprises, showing US commercial crude oil inventories falling by 1.95m barrels over the week, which was similar to what the API reported the day before. While refiners increased utilisation rates by 1pp over the week, the draw was predominantly driven by stronger crude exports, which grew by 1.73m b/d WoW to 4.88m b/d.

This left US net exports of crude and products at 4.05m b/d over the week - the highest level since November last year and only the second time that net exports have crossed the 4m b/d barrier.

For refined products, distillate stocks were little changed, increasing by just 624k barrels. However, gasoline inventories fell by 3.31m barrels, which is the seventh consecutive week of decline, leaving US gasoline inventories at just under 231m barrels - 2.1% below the 5-year average. The fall in US gasoline inventories in recent weeks has boosted gasoline, and the RBOB crack is now trading above US\$30/bbl, up from around US\$15/bbl at the beginning of the year. Gasoline cracks will remain well supported as we head into the summer driving season.

BP's Whiting refinery has ramped up operations to nearly maximum rates following an outage after a power loss in February. It is believed that the refinery is operating near its nameplate capacity of around 435k b/d. Canadian heavy crude is a key feedstock for the refinery and its return should provide some support to the WCS differential, which has already strengthened considerably since mid-February.

US LNG exporter, Freeport LNG, said that it will increase LNG production following ongoing repairs that are scheduled to be completed by early May. This maintenance is estimated to increase the facility's capacity to 16.5mt/year, up from the current capacity of 15mt/year. The three-train plant has been undergoing maintenance since late January due to damage from freezing weather conditions earlier in the year. Feedgas to the terminal suggests that only one train is currently online.

Metals – China gold imports surge

Gold rallied yesterday and spot prices settled more than 1.3% higher. This strength has continued in early morning trading today, and the market has broken back above US\$2,200/oz. The market appears to have taken comfort in the unchanged Fed forecast for three rate cuts this year at yesterday's FOMC meeting. Whether this strength can be sustained is unclear, particularly since the Fed lowered its estimate for rate cuts next year from four to three, suggesting that rates could settle higher than originally expected.

The latest data from China Customs show that gold imports in China jumped 53% YoY to 372.2t in the first two months of 2024, following increased demand during the Lunar New Year peak consumption period. This is the highest purchase recorded for the two-month holiday season since 2017.

Recent numbers from the International Aluminium Association (IAI) show that average daily global primary aluminium output fell to 191.2kt in February, compared to 195.5kt reported a month earlier. Total monthly aluminium output fell 8.5% MoM to 5.54mt last month, following lower production from almost all major producing nations. However, output was still up 4% YoY, while cumulative production rose 3.3% YoY to 11.6mt in the first 2 months of the year. Chinese output is estimated to have dropped by 9.7% MoM to 3.24mt last month, while cumulative production rose 3.6% YoY to 6.8mt in the first two months of the year.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@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 www.ing.com.