

The Commodities Feed: Oil remains under pressure

Oil prices have come under further pressure as noise around OPEC+ production policy grows. Gold continues to be supported by strong central bank buying



Oil prices have sold off aggressively

Source: Shutterstock

Energy - Russia denies OPEC+ considering supply increase

Oil prices came under further pressure yesterday. ICE Brent briefly traded below US\$83/bbl and to its lowest level since mid-March. A dampening factor was a report that Russia's deputy prime minister, Alexander Novak, said that OPEC+ was looking at the possibility of increasing oil output. However, Novak has since denied that the group is considering a potential increase in supply. Expectations are that members will extend their additional voluntary supply cuts beyond the second quarter of this year. Our oil balance suggests that there is no need for a full rollover of the 2.2m b/d of cuts. Instead, a partial rollover should be enough to keep the market balanced for the remainder of the year. However, recent price action increases the risk that full cuts are rolled over, which in turn increases the risk of OPEC+ overtightening the oil market later in the year.

API numbers released overnight were moderately bearish due to stock builds in both crude and products. While US crude oil inventories are estimated to have increased by only 500k barrels over

the week, gasoline and distillate stocks increased by 1.5m barrels and 1.7m barrels respectively. In addition, crude oil stocks at the WTI delivery hub, Cushing, grew by 1.3m barrels over the week. Concern over weaker-than-usual US gasoline demand and this stock-build have weighed on the prompt RBOB gasoline crack, which has fallen below US\$29/bbl, from more than US\$33/bbl in mid-April.

The Energy Information Administration's (EIA) latest Short-Term Energy Outlook saw little change in US production estimates. The EIA forecasts that US crude oil output will grow by around 280k b/d YoY to a record 13.2m b/d in 2024, and then grow a further 520k b/d in 2025 to average 13.72m b/d. Both estimates are essentially unchanged from the previous month's forecast. For natural gas, the EIA has revised its production estimates down for this year. Dry gas production is expected to fall 0.77bcf/day YoY to 103bcf/day in 2024, slightly less than last month's 103.59bcf/day forecast. The low-price environment in the US and reduced drilling activity will be key reasons behind this expected slowdown. However, the EIA expects dry gas production to return to growth in 2025, growing by 1.78bcf/day YoY to a record 104.78bcf/day. This supply growth will be price-dependent. This latest release reinforces [our view](#) that US natural gas prices have likely bottomed and should trend higher from current levels.

Metals - China's gold buying continues

China's central bank expanded its gold reserves for an 18th straight month in April adding 1.87 tonnes and taking its total holdings to 2,264.3 tonnes. However, the pace of buying slowed last month amid record gold prices. Gold demand from central banks posted its strongest start to any year on record in the first quarter. Central banks added 290 tonnes of gold to their official holdings in the quarter. China was the biggest buyer according to data from the World Gold Council. Gold hit an all-time high above \$2,400/oz in April after a rally underpinned by strong demand from central banks and rising geopolitical tensions.

Agriculture – Robusta coffee declines on better supply prospects

Robusta coffee prices extended losses for a seventh consecutive session yesterday on prospects of improving weather conditions this week in major producer Vietnam. Cumulative coffee exports from Vietnam increased by 5.4% YoY to 756kt in the first four months of 2024. Similarly, the International Coffee Organization (ICO) reported that global robusta coffee exports rose 6% YoY to 5.6m bags in March. The spread between Robusta and the higher-quality Arabica coffee has also tightened, reflecting less concern over robusta supply.

Volatility continues in the cocoa market. After London cocoa prices fell almost 20% last week amid lower liquidity, prices rallied more than 7% yesterday, leaving them just shy of GBP8,000/t. This volatility is likely to continue due to reduced liquidity and concern over market tightness. Farmers in the key producer, Ivory Coast, have delivered around 1.37mt of cocoa to ports so far this season, down from around 1.97mt over the same period last season.

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