The Commodities Feed: Oil sell-off continues

The sell-off in the oil market continued yesterday despite a constructive US inventory report. Sentiment remains clearly negative and it's hard to see a turnaround until we see some signs of strength in the refined products market

Energy: Brent back below pre-OPEC+ levels

The oil market saw yet another day of weakness with ICE Brent selling off a little more than 3.8% yesterday, pushing it well below US$80/bbl and back below levels it was trading at prior to the surprise OPEC+ supply cuts earlier this month. There was little in the way of fresh developments to justify the sell-off, but clearly sentiment in the market remains negative as a result of the macro outlook. The prompt ICE Brent timepsread has also fallen back into a small contango, suggesting a more comfortable prompt market in terms of supply.

The price action we have seen in the last two weeks would suggest that OPEC+ made the right decision to announce further supply cuts. However, our balance sees significant tightening over the second half of the year, which should still mean that the market moves higher. For now though, it's a bit tricky to figure out where the floor for the market is. The potential refill of the US Special Petroleum Reserve was meant to provide some support to prices, with the US administration originally saying it would look to refill the SPR if WTI traded down to the US$67-72/bbl range. However, the market traded down to those levels in March and we saw no action (due to maintenance and mandated SPR releases). Instead, the start of any potential refill may only happen in the second half of the year, if prices are attractive enough. This once again leaves OPEC+ as the most likely candidate to provide support to the market, and noise of further intervention is only likely to grow if we were to see Brent trading down towards US$70/bbl. Trading significantly lower than this would see oil prices below the fiscal breakeven for a number of Middle Eastern producers.

The market ignored what was largely a constructive inventory report from the EIA. The EIA reported that US commercial crude oil inventories fell by 5.05MMbbls over the last week, which was more than the 1-1.5MMbbls draw the market was expecting. In addition, gasoline and distillate stocks fell by 2.41MMbbls and 577Mbbls, respectively. Implied gasoline demand also saw a strong recovery over the week, increasing by 992Mbbls/d to 9.51MMbbls/d.

Metals: MMG copper output drops 13% YoY

MMG reported that its copper mining output fell 13% year-on-year to 68,954 tonnes in the first quarter mainly due to lower milled ore grades at its Las Bambas mine in Peru. However, the miner maintained its annual copper production guidance at 305kt-353kt for the year. Amongst other metals, the company reported that zinc production declined 38% YoY to 30,650 tonnes in the first quarter due to the suspension of operations at Dugald River in Australia during mid-February. However, operations have since resumed. MMG lowered its full-year zinc production guidance to 190kt-215kt for 2023 following the 34-day suspension at the mine. Meanwhile, First Quantum Minerals reported a 33% decline quarter-on-quarter in its copper production to 138.7kt in 1Q23 due to a 15-day temporary production suspension at Cobre Panama and the rainy season in Zambia. The company left its annual copper production guidance unchanged at 770kt-840kt for the year.

Agriculture: Sugar prices surge on supply woes

The Indian Sugar Mills Association (ISMA) revised down its Indian sugar production estimate for the 2022/23 season by 3.5% to 32.8mt. This almost guarantees that we will not see the government issue any further export quotas for the season. Prompt tightness in the sugar market and growing concerns over El Nino risks for next season have seen the No.11 Jul-23 contract rally by more than 8% over the last week. The No.11 May-23 contract also expires this Friday, and given the tightness in the prompt market we would not expect a large delivery. Although open interest in the contract still stands at 36,804 lots (1.87mt) as of Tuesday.

The latest report from Statistics Canada shows that Canadian farmers are expecting to plant the largest wheat crop in more than two decades this season amid strong demand for wheat. Statistics Canada forecast all-wheat plantings at 27m acres, up 6.2% from last year. Corn and soybean area were also revised up by 2.8% and 4.5%, respectively. Improved weather conditions and growing demand prompted domestic producers to increase grain plantings.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com