The Commodities Feed: Oil strength, copper weakness

Oil prices moved higher yesterday following comments from the Saudi energy minister earlier this week, whilst inventory data has also been constructive. Meanwhile, China demand concerns continue to put pressure on metal prices

Energy - Oil continues its climb higher

ICE Brent continued its move higher yesterday, settling almost 2% up on the day and trading comfortably back above US$78/bbl. A warning earlier this week from the Saudi energy minister for short sellers to “watch out” has provided a boost to the market. As we previously pointed out, there is a large speculative gross short in the market and they will likely be hesitant to carry too much risk into the OPEC+ meeting scheduled for 4 June. This is even more likely following the energy minister’s warnings. We do not believe that OPEC+ will need to cut further from a fundamental perspective, given that the market is already looking tight over 2H23. However, these comments from the Saudi energy minister have likely increased market expectations that the group may reduce output further. Therefore, no action could see some immediate weakness in oil prices.

Inventory data over the last few days has also been constructive for the market. API numbers earlier in the week showed large draws in both US crude oil and refined product inventories over the last week. Crude oil inventories fell by 6.8MMbbls. However, the more widely followed EIA numbers, which were released yesterday, were even more bullish. US commercial crude oil inventories fell by 12.46MMbbls - the largest weekly decline since November. Gasoline and distillate stocks fell by 2.05MMbbls and 561Mbbls respectively. Implied demand was also stronger over the week, growing by 1.14MMbbls/d. This was driven by gasoline and distillates, where demand grew by 529Mbbls/d and 462Mbbls/d respectively. The 4-week average for implied gasoline demand remains just above 9MMbbls/d, which is the highest post-covid level seen for this time of year.

European gas prices continued to come under pressure with the TTF front-month contract falling 4.6% yesterday to below EUR28/MWh. In the absence of any large supply shocks, it is difficult to see TTF moving significantly higher from current levels over the summer. Instead, prices are likely to remain under pressure in the short term. Demand remains weak, while EU storage is more than 66% full at the moment. As a result, we are not seeing the same rush as last year to refill storage. We only see European gas prices moving much higher through the 2023/24 winter.

Metals - Copper plunges below the $8,000/t mark

LME copper fell below the $8,000/t mark for the first time since 29 November as the Chinese demand recovery continues to disappoint. Rising exchange inventories will also not be helping - LME stocks have almost doubled in the past month. As a result, the cash/3m spread sank to a contango of around US$66/t earlier this week - the widest contango seen going as far back as 1994. Clearly, concerns over a tight copper market are disappearing.

The latest monthly update from the International Copper Study Group (ICSG) shows that the global copper market remained almost balanced with a marginal surplus of 2kt in March. As a result, the ICSG estimate an apparent surplus of 332kt in the first quarter of the year, this is up from a marginal surplus of 8kt during the same period last year. Global mine and refined copper production increased by 2.2% YoY and 7.5% YoY respectively, while overall apparent refined demand increased by 2.3% YoY in the first quarter.

The latest LME COTR report shows that net bullish positions for copper decreased by 3,251 lots to 38,416 lots, the lowest since the start of the year. The move was dominated by longs liquidating. The gross long fell by 4,558 lots to 307,757 lots. In contrast, speculators boosted their net long position in aluminium by 8,659 lots to 111,470 lots, while also increasing their net long position in zinc by 7,536 lots to 32,073 lots.

Recent data from the China Iron and Steel Association show that steel inventories at major Chinese steel mills fell to 16.3mt (lowest since January) in mid-May, down 7.65% compared to early May. Meanwhile, crude steel production at major mills fell marginally by 0.2% over the same period to 2.25mt/d in mid-May.

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