The Commodities Feed: Oil supply risks linger

Oil prices came under further pressure yesterday despite supply risks from Canada. Constructive fundamentals suggest the move lower is overdone

Energy – Canada supply risks linger

The sell-off in oil continued yesterday. ICE Brent settled 1.69% lower on the day leaving it just above US$81/bbl and the weakest level since early June. Having broken through the 50-day and 200-day moving average earlier this week, there has been little support for the market since. Weak Chinese demand adds to the concerns for the market. However, the market is nearing oversold territory and we still believe that the fundamentals support prices moving higher from current levels over the remainder of the third quarter on the back of a deficit environment.

Price action in early morning trading today has been more constructive. This is after API data overnight showed that US crude oil inventories fell by 3.86m barrels over the last week, more than the roughly 2.8m barrel draw the market was expecting. In addition, declines were also seen on the product side. Gasoline and distillate inventories fell by 2.77m barrels and 1.5m barrels respectively. The more widely followed EIA inventory report will be released later today.

Oil supply risks from wildfires in Canada continue to grow. While wildfires have already forced some producers to curtail production, these fires still threaten a large amount of supply. Bloomberg reports that 388k b/d of oil production is within 10km of fires that are at least 10 hectares in size. The wildfires have provided some support to the WCS-WTI differential this month. The discount has currently narrowed from around $16.40/bbl to $14.70/bbl.

Metals - LME lead inventories surge

LME lead inventories rose by 44,475 tonnes to 253,550 tonnes yesterday, the highest since 7 May. The increase was driven by warehouses in Singapore. Meanwhile, lead cancelled warrants fell by 750 tonnes to 58,200 tonnes, while on-warrant inventories rose by 45,225 tonnes to 195,350 tonnes.

The latest data from the World Steel Association (WSA) shows that global steel production rose marginally by 0.5% YoY to 161.4mt in June, as higher output in the European Union (+5.1% YoY) was offset by declining production from Japan (-4.2% YoY) and South Korea (-7.2% YoY). Cumulative global steel output remained flat at 954.6mt in the first half of the year. Chinese steel production reported a marginal increase of 0.2% YoY to 91.6mt in June, while cumulative production fell 1.1% YoY to 530.6mt in the first six months of the year.

The latest COTR report shows that investors trimmed their net long position in copper by 10,706 lots to 71,228 lots for the week ending 19 July, the smallest net long held since 23 February. This is due to concerns over China’s weak consumption and surging global inventories. Similarly, net bullish bets for aluminium fell by 12,416 lots to 109,894 lots, while the net long in zinc fell by 3,145 lots to 27,595 lots.

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