

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.

Authors

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.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 <http://www.ing.com>.