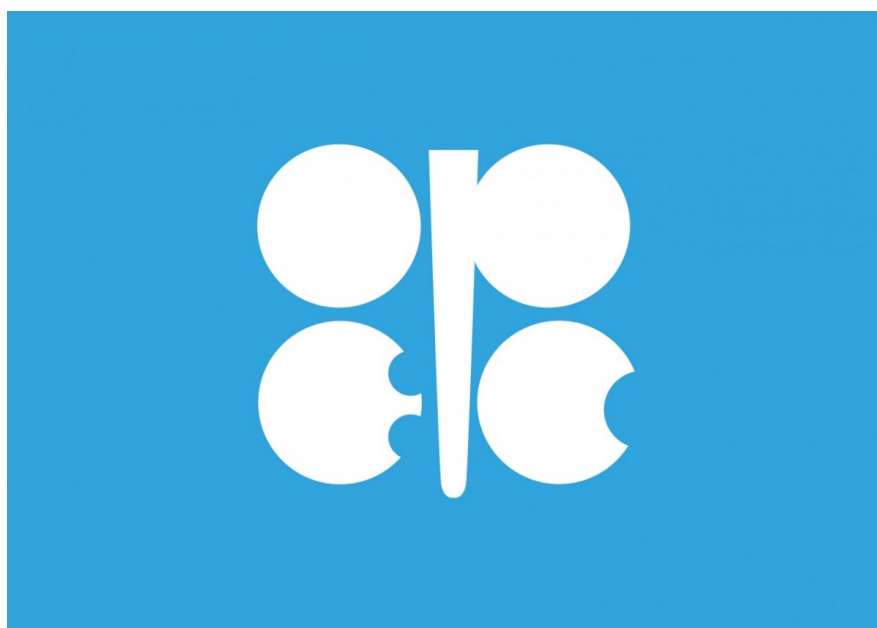


The Commodities Feed: OPEC+ meeting

Oil prices remain under pressure ahead of the OPEC+ meeting this weekend. The weaker market suggests the group will fully rollover supply cuts at least into the third quarter



Energy - speculative gross short builds in Brent

While oil prices managed to close higher on Friday, the market remains under pressure. ICE Brent was down more than 2.2% for the week. Weaker refinery margins will be a concern, while the dated Brent-to-frontline (DFL) swap is negative suggesting a weaker physical North Sea market. The recent weakness in the market increases the likelihood of a full rollover of OPEC+ additional voluntary cuts at least through the third quarter of this year. Expectations for such action are growing, so anything less will disappoint the market. However, fundamentally the market only needs to see a partial rollover, so there is a risk that OPEC+ overtightens the market in the third quarter of the year. OPEC+ was scheduled to meet on 1 June to discuss output policy, however, this meeting has been pushed back to 2 June and will also be a video conference rather than an in-person meeting.

The latest positioning data shows that speculators reduced their net long in ICE Brent by 67,252 lots over the week, leaving them with a net long of 146,250 lots as of last Tuesday. This is the smallest position speculators have held in Brent this year. The move in the week was driven fairly evenly by longs liquidating and fresh shorts entering the market. The gross short in Brent stood at

120,561 lots last Tuesday- the largest short since November 2020. A rollover of OPEC+ cuts would likely flush out some of these shorts.

Baker Hughes data shows that the US gas rig count fell below 100 last week for the first time since 2021. The number of active gas rigs fell by 4 over the week to 99. The US oil rig count was unchanged at 497 last week. Weaker natural gas prices have weighed on drilling activity for several months, which has started to weigh on US natural gas output. This has meant that the gap between current US storage levels and the 5-year average has started to narrow with storage building at a slower pace. This has supported Henry Hub recently. Speculators also shifted their positioning in Henry Hub from a net short to a net long over the last reporting week, after buying 27,156 lots to leave them with a net long of 14,455 lots.

The calendar this week for energy markets is fairly quiet. Both the US and UK are off today for a holiday, while there are just the usual weekly releases over the course of the week. However, all attention will be on OPEC+ which meets over the weekend.

Metals – Speculators boost net long in gold

The latest positioning data from the CFTC shows that managed money net longs in COMEX gold increased by 21,030 lots to 193,972 lots over the last reporting week. This is the largest position that speculators have held in gold since April 2020. The significant rise in gold prices, strong central bank purchases, stronger Asian demand and geopolitical uncertainty are supporting these flows. In contrast, speculators decreased their net long in COMEX silver by 3,918 lots to 37,703 lots as of last Tuesday. Unsurprisingly given the move in copper prices in recent weeks, speculators also increased their net long in COMEX copper by 2,557 lots to 75,342 lots as of 21 May - the largest net long since February 2021.

Weekly data from the Shanghai Futures Exchange (ShFE) shows that inventories for base metals remained mixed over the last week. Copper weekly stocks rose by 9,944 tonnes to 300,964 tonnes - a seasonal record high. Nickel inventories increased by 1,209 tonnes to 25,699 tonnes, while aluminium, zinc, and lead inventories fell by 0.3%, 1.1% and 24.2%, respectively.

Steel inventories at major Chinese steel mills rose for a second consecutive week to 16.8mt in mid-May, up 3.4% compared to early May, according to data from the China Iron and Steel Association (CISA). Steel inventories are 3.5% higher than in the same period last year. Crude steel production at major mills rose by 0.8% from early May to 2.21mt/d in mid-May, the highest in nine months.

Author

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 www.ing.com.