

Article | 7 February 2024

COMMODITIES DAILY

The Commodities Feed: Rangebound trading

The oil market continues to trade in a range despite lingering geopolitical risks in the Middle East. The oil market clearly does not expect further escalation, or at least escalation which impacts oil supply



Energy - slower US oil output growth

Oil prices edged higher yesterday, though they continue to trade in a fairly rangebound manner. ICE Brent settled 0.77% higher on the day, but the market continues to trade firmly below the US\$80/bbl level. Given the heightened geopolitical risk, the rangebound trading and lack of a risk premium may surprise some. However, market participants appear to be assuming that we will not see a significant escalation in the Middle East, at least an escalation which puts oil supply at risk. It's important to remember that while we are seeing disruptions to trade flows as a result of Red Sea developments, oil production remains unchanged as a result. Furthermore, the oil balance is comfortable through 1H24, while OPEC is sitting on a little more than 5m b/d of spare capacity, of which more than 3m b/d sits in Saudi Arabia.

Numbers overnight from the API show that US crude oil inventories increased by 674k barrels over the last week, which is somewhat lower than the roughly 2m barrel build the market was expecting. In addition, Cushing crude oil stocks increased by 492k barrels over the week. For refined products, gasoline stocks increased by 3.65m barrels, whilst distillate inventories declined by 3.7m barrels. The more widely followed EIA report will be released later today.

The EIA released its latest Short-Term Energy Outlook yesterday in which it forecast that US crude oil production will grow by around 170k b/d YoY in 2024 to average 13.1m b/d. This is slightly lower than the 13.21m b/d the EIA was forecasting last month. Last year US crude oil supply grew by a little more than 1m b/d and the drop in growth this year shouldn't come as too much of a surprise given the slowdown seen in drilling activity for much of last year. Meanwhile, for 2025 the EIA forecasts that crude oil supply will grow by a little more than 390k b/d YoY to a record 13.39m b/d.

Daily Norwegian gas flows to Europe are still down roughly 15% from early February levels given unplanned outages at the Troll field as well as the Nyhamna processing plant. However, flows should resume to more normal levels from tomorrow with the outages expected to only last until today. While lower flows to Europe initially led to some strength in the market, the fact that the outage is expected to be relatively short, along with storage remaining very comfortable, at around 69% full, suggests that prices are likely to remain under pressure.

Metals – Peru copper output rises

Official numbers from Peru show that domestic copper output rose 12.7% YoY to a record high of 2.76mt in 2023. It is reported that output gains from the likes of Anglo American's new Quellaveco mine and fewer disruptions at MMG's Las Bambas mine contributed to Peru's overall output growth last year. Meanwhile, domestic zinc output also grew by 7.2% YoY to 1.5mt in 2023.

For aluminium, recent reports from the Shanghai Metals Market (SMM) suggest that aluminium smelters' operations in Yunnan province in China remained stable in January. It is estimated that operating capacity in the region stood at around 4.45mt last month, largely unchanged from the previous month. Hydropower output remains low during the dry season and there is no expectation of increased demand for industrial consumption in the short term.

In ferrous metals, iron ore extended its declines for a third straight session with prices touching a three-month low yesterday, as we approach Lunar New Year holidays. Steel inventories at major Chinese steel mills fell significantly (after rising for two consecutive weeks) to 12.2mt in late January, down 20.6% compared to mid-January, according to data from the China Iron and Steel Association (CISA). This sharp fall is primarily due to declining domestic output. Crude steel production at major mills fell 3.7% from mid-January to 2.02mt/d in late January, as many mills reduced production due to falling margins, whilst some have halted operations to conduct maintenance ahead of the Chinese New Year holidays.

The latest LME COTR report released yesterday shows that investors increased net bullish positions in copper by 12,618 lots to 71,981 lots (highest since February 2021) in the week ending 2 February. Similarly, net bullish bets for aluminium rose by 16,083 lots to 123,577 lots at the end of last week. In contrast, money managers reduced net bullish bets in zinc by 2,120 lots to 31,175 lots as of last Friday.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@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.