

The Commodities Feed: Key US CPI release

The oil market rallied more than 2% yesterday, leaving it at the top end of its recent trading range. US CPI data later today will be key for price direction in the immediate term



Energy: Oil looking to breakout

Oil prices pushed higher yesterday with ICE Brent trading to its highest level since early May and leaving it within striking distance of US\$80/bbl. A break above US\$80/bbl would see the market finally breaking out of the US\$70-80/bbl range that it has been stuck in for more than two months. The market appears to be finally starting to reflect the tighter fundamentals that we see over the second half of 2023. Obviously, additional cuts announced by Saudi Arabia last week will be helping, while hopes of support measures for China's economy will be offering some further optimism. However, macro developments are still likely to be key for the market in the near term. And today there will be plenty of focus on US CPI numbers. Expectations are for a print of 3.1% year-on-year for June, down from 4% in the previous month. We will need to see the number come in well below consensus to see any significant change to current expectations for the Federal Reserve to hike at its next meeting.

API numbers released overnight were more bearish than expected, with US crude oil inventories

increasing by 3MMbbls, while gasoline and distillate stocks also increased by 1MMbbls and 2.91MMbbls, respectively. The market had been expecting some small draws across crude and products. The more widely followed EIA inventory report will be released later today, but obviously, it is likely to be overshadowed by the US CPI release.

Bloomberg ship tracking data shows that Russian seaborne crude oil exports fell by a little more than 1MMbbls/d WoW to 2.86MMbbls/d for the week ending 9 July. This also drags the four-week rolling average down to a little over 3.2MMbbls/d, which is the lowest level seen since January. The market will be watching Russian exports closely, as up until now there have been doubts over whether Russia is actually making the full supply cuts it announced earlier in the year.

Yesterday, the EIA released its latest Short Term Energy Outlook, in which it forecasts 2023 US crude oil production to grow by 680Mbbbls/d YoY to average a record 12.56MMbbls/d. Meanwhile, for 2024, supply growth is expected to slow to a little over 280Mbbbls/d YoY, which would see output averaging 12.85MMbbls/d. This ties in with the slowdown in drilling activity that we have seen for much of this year. The number of active oil rigs in the US has fallen from a year-to-date high of 623 in January to 540 last week.

Metals: Record high temperatures in Sichuan risk output cuts

Record high temperatures in China's Sichuan province have raised the chances of electricity supply curbs for metal producers over the coming days. Power consumption in Sichuan, a region already struggling with low hydro levels, reached a record high on Monday. According to the National Bureau of Statistics (NBS), hydro generation across China fell about 33% YoY in May. Shanghai Metals Market (SMM) reported that aluminium smelters near the provincial capital of Chengdu have been ordered to reduce their power consumption, which might result in 50kt of annualised capacity of the metal being idled. Sichuan is home to roughly 1mt of China's total aluminium capacity of over 40mt. However, the planned resumption of about 1mt of aluminium capacity in the Yunnan province by next month could help offset these supply risks.

In terms of mine supply, Peru's latest official numbers show that domestic copper output rose almost 35% YoY (+5.8% MoM) to 234.8kt in May. Cumulative production over the first five months of the year increased by 19.4% YoY to 1.07mt. Meanwhile, zinc output declined 8.2% YoY to 126.9kt in May.

The latest SMM survey shows that China's copper cathode production fell 4.3% MoM to 918kt in June, as around nine smelters undertook maintenance resulting in a total output impact of about 50kt. However, copper output still grew 7.1% YoY, whilst cumulative production also rose by 11% YoY to 5.6mt in the first half of the year. Chinese primary aluminium production remained almost flat on an annual basis at 3.4mt in June, although cumulative output rose 2.8% YoY to 20.1mt. Meanwhile, refined zinc output fell 13% YoY to 525.5kt, while lead output rose 24.6% YoY to 293kt last month.

Authors

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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