

The Commodities Feed: US drilling slows

Oil prices closed higher for a third consecutive week and with fundamentals set to tighten over the third quarter we remain constructive towards the market



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Energy - Speculators increase their gasoil net long position

The oil market managed to close higher for a third consecutive week as expectations for a tighter market continued to pull in speculative money. The latest positioning data shows that the managed money net long in ICE Brent increased by 18,150 lots over the last reporting week to 158,371 lots as of last Tuesday. The move in NYMEX WTI was even more aggressive. Speculators increased their net long by 45,151 lots to 235,816 lots - the largest position since mid-April. We continue to hold a supportive view towards Brent, although there are concerns around demand, such as US gasoline demand and Chinese apparent demand.

Drilling activity in the US continues to slow. The latest data from Baker Hughes shows that the oil rig count fell by 6 over the week to 479 active rigs - the lowest since December 2021. Not only are we seeing lower drilling activity, but completion activity is also slowing. Primary Vision's frac spread count fell by 9 over the week to 237.

The ICE gasoil crack continues to find some support after bottoming out in late May. The crack has

strengthened from a little under \$17/bbl in late May to more than \$21/bbl currently. Speculators have become more constructive on the market, and this is reflected in positioning. The ICE gasoil managed money net long increased by 19,456 lots over the last reporting week to 99,404 lots - the largest position since March 2022. Gasoil stocks in the ARA region have fallen below the 5-year average in recent weeks, which is providing some support. A similar move has occurred in middle distillate stocks in Singapore. In addition, a supply disruption from the Pernis refinery in the Netherlands and the potential for disruptions from the 240k b/d Gravenchon refinery in France will also provide some support.

The Al-Zour refinery in Kuwait reported that a fire broke out at a storage facility over the weekend. However, the fire does not appear to have had any impact on operations at the 615k b/d refinery.

Russia will allow refineries to export gasoline in July, extending a temporary allowance which has been in place since late May. Earlier in the year, Russia banned gasoline exports for 6 months starting 1 March due to concern over domestic availability, partly due to the continued Ukrainian drone attacks on Russian energy assets.

Metals - LME zinc on-warrant stocks rise

Agriculture – USDA increases grain stock estimates

The USDA released its quarterly stocks report (as of 1 June) on Friday, which showed a rise in US grain inventories. The agency reported corn inventories at 4.99b bushels, up 22% YoY and higher than the market expectation of around 4.87b bushels. For soybeans, the agency reported inventories of 970m bushels, up 22% YoY and above market expectations of around 963m bushels. Similarly, wheat inventories were reported at 702m bushels, up 23% YoY and higher than the 683m bushels the market expected.

The latest acreage report from the USDA estimates corn and wheat plantings will drop while soybean acreage will rise this year. The agency projects 2024 corn acreage at 91.5m acres, lower than the 94.6m acres planted in 2023 but higher than the previous estimate of 90m acres. The estimates were above market expectations of around 90.3m acres. In contrast, the USDA projects 2024 soybean plantings to reach 86.1m acres, higher than 83.6m acres planted in 2023, but below the previous estimate of 86.5m acres. The market was expecting a number closer to 86.8m acres. Wheat planting estimates were trimmed to 47.2m acres, lower than the 49.6m acres planted in 2023 and the March estimate of 47.5m acres. The market expected these plantings to be around 47.7m acres.

The latest fortnightly report from UNICA shows that sugarcane crushing in Centre-South Brazil stood at 49mt over the first half of June, compared to 40.7mt during the same period last year. The cumulative sugarcane crush for the season as of mid-June rose 13.3% YoY to 189.5mt. Meanwhile, sugar production rose 21.9% YoY to 3.1mt over the first half of June. Around 49.7% of cane was allocated to sugar production in the fortnight, higher than the 48.9% allocated for sugar production in the same period last year. Cumulative sugar output so far this season stands at 11mt, up 14.4% YoY.

Authors

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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