The Commodities Feed: USD holds oil back

Some renewed strength in the USD weighed on oil prices yesterday, whilst US inventory data was not the most constructive. Brent is clearly finding it difficult to convincingly break above US$80/bbl. Wheat prices have skyrocketed with ongoing concerns over the outlook for Ukrainian grain exports

Energy – Hi-5 spread continues to weaken

The oil market had a fairly choppy day of trading yesterday. ICE Brent managed to break above US$80/bbl and reach an intraday high of US$80.93/bbl. However, some renewed USD strength eventually weighed on the market, which saw the prompt price settle back below US$80/bbl.

The EIA's weekly inventory report was also not the most constructive, with crude and gasoline draws coming in lower than expected. US commercial crude oil inventories fell by 708Mbbls over the last week, compared to expectations for a roughly 2.5MMbbls draw. Gasoline stocks dropped by 1.07Mbbls, slightly less than the 1.5MMbbls decline expected. In terms of inventory data, the most constructive data point was the 2.89MMbbls fall in crude inventories at the WTI delivery hub, Cushing. This was the largest weekly decline since October 2021, although the prompt WTI timespread did not react to this draw, in fact, the spread weakened over the course of the day.

Refinery margins continue to edge higher, supported by strength in most refined product cracks – gasoline, middle distillates and fuel oil. Middle distillates continue to be supported by falling inventories in the ARA region, whilst Singapore middle distillate stocks are broadly in line with the low levels seen last year. As for fuel oil, high sulphur fuel oil (HSFO) cracks have continued to strengthen, largely driven by tightness in the sour crude market, as well as stronger summer fuel oil demand for power generation needs in the Middle East. The tightness in sour crude has been driven by OPEC+ supply cuts and is evident with Brent's unusual discount to Dubai. The strength in the HSFO market has weighed heavily on the Hi-5 spread (very low sulphur fuel oil – high sulphur fuel oil), which is trading at a little over US$60/t in NW Europe – its lowest levels since November 2020. The one weak spot for products remains naphtha, where cracks remain deep in negative territory (more than -$14/bbl). Given the weakness in propane prices and ethylene margins, it is difficult to see much upside in naphtha cracks in the near term.

Finally, the latest sales data from the European Automobile Manufacturers' Association (ACEA) shows that, for the first time, the share of new battery electric vehicle sales exceeded diesel vehicle sales in the EU over the month of June. Electric vehicles made up 15.1% of total sales in June, compared to diesel holding a share of 13.4%. However, petrol sales still dominate, making up 36.3% of total sales in the month.

Metals – LME copper falls on rising supply

LME copper prices fell for a fourth straight session on the back of growing exchange inventories and expectations of rising supplies. LME copper inventories have been edging higher since the end of last week, whilst SHFE rose 11% for a third straight week as of last Friday. In addition, a dispute over royalties at the Tenke Fubngurume mine in the Democratic Republic of Congo appears to have been resolved, which will allow for the export of copper stocks accumulated at the mine since the dispute began in July last year.

Chile's Antofagasta reported copper production rose 2.5% quarter-on-quarter to 149.6kt in the second quarter of this year, while cumulative production increased by 10% year-on-year to 295.5kt in the first half of the year following a surge in throughput rates at its Los Pelambres operation. However, the mine has lowered its 2023 annual production guidance for copper due to a delay in the completion of its desalination plant and concentrator expansion, along with the water shortages faced in the first half of the year. The miner now expects its copper output to range between 640kt-670kt for the year, down from its previous estimates of 670kt-710kt.

In zinc, LME data shows that total on-warrant stocks for the metal continued to report large inflows, rising by 11,500 tonnes yesterday to 82,400 tonnes – the highest since the start of April 2022. Most of the inflows were once again reported from warehouses in Singapore. Total readily available stocks for zinc have jumped over 40% in the last two days alone, which brings net inflows for the month to 14,075 tonnes as of yesterday, compared to net outflows of 9,100 tonnes over the same period last month. Meanwhile, cancelled warrants for zinc declined by 1,050 tonnes to 8,425 tonnes yesterday. Total exchange inventories rose by 10,450 tonnes to 90,825 tonnes yesterday, the highest since May 2022.

Agriculture – Wheat surges on rising Russia-Ukraine tensions

CBOT wheat futures extended the upward rally for a third straight session this morning after surging as much as 9% yesterday amid growing tension between Russia and Ukraine. Russia's Ministry of Defense warned all vessels sailing to Ukrainian's Black Sea ports will be considered as potential military targets starting today, which has heightened worries over the safe transit of grains from the Black Sea region. Earlier this week, Russia attacked Ukraine's grain export ports in Odesa, resulting in the destruction of agricultural infrastructure and 60kt of grain. Russia has been adamant that it will only return to the grain deal if its conditions are met. Recent reports of dry weather in parts of the US and Canada have offered additional support to grain prices.

Recent numbers from Ukraine's Agriculture Ministry show that grain exports for the season stood at 1.43mt as of 19 July, up 32% YoY. This includes 451kt of wheat and 818kt of corn.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com