

## The Commodities Feed: What goes up, must come down

The commodity complex has benefitted from a run-up in prices in recent months. Geopolitical tension and supportive fundamentals led speculators to boost their positioning. However, from oil to cocoa, prices have come under pressure this week



### Energy - Bearish EIA inventory report

Oil prices sold off aggressively yesterday. ICE Brent settled almost 3.4% lower on the day to leave it at US\$83.44/bbl. The risk premium in the oil market continues to erode as geopolitical tension in the Middle East eases. However, this is a factor that could return to the market, so is not something that should be fully discounted.

In addition, bearish inventory data from the Energy Information Administration (EIA) put further pressure on the market. Yesterday's weekly report was bearish. US commercial crude oil inventories increased by 7.27m barrels over the last week. Total crude oil inventories stand at almost 461m barrels, the highest level since June last year. The increase in inventory was dominated by the US Gulf Coast, where stocks grew by 6.77m barrels. Weaker crude oil exports, which fell by 1.26m b/d WoW and lower refinery operating rates (fell by 1 pp WoW) were the key drivers behind the large crude oil stock build. Gasoline inventories increased by 344k barrels

despite lower refinery run rates over the week. This build reflects weak gasoline consumption. The 4-week average implied demand for gasoline is at its lowest level for this time of the year since 2020. Distillate fuel oil stocks fell by 732k barrels.

Preliminary OPEC output numbers for April have started to be published. OPEC production declined by 50k b/d MoM to 26.81m b/d in April, according to a Bloomberg survey. Increases were driven by Libya and Iraq, where output increased by 60k b/d and 50k b/d respectively. With Iraq pumping 4.22m b/d over the month, there are no signs that they are trying to keep to their production target of 4m b/d. This will likely be a topic of discussion the next time OPEC+ meets, particularly if downward pressure on the market persists. However, we still believe that US\$80/bbl is the floor for the market. Trading below this level for a prolonged period would likely prompt OPEC+ to roll over additional voluntary cuts into the second half of the year. Also, fundamentally the market is still tight. Our oil balance shows a deficit of around 1m b/d in the second quarter.

For the energy calendar today, refined product inventory data for both Singapore and the ARA region in Europe will be released. In addition, the EIA will release its weekly US natural gas storage report and the market expects US natural gas inventories to have increased by 59bcf over the last week.

## Agriculture - Cocoa continues its decline

Cocoa sold off aggressively once again yesterday. London cocoa settled almost 8.4% lower on the day, leaving prices at a little over GBP7,800/tonne. Cocoa prices this week traded to their lowest level since March despite little change fundamentally in the cocoa market. The global market is still expecting not only a third consecutive deficit in the 2023/24 season but also the largest deficit in at least 50 years. However, falling liquidity has led to increased volatility in the market. An increase in initial margins has made it more expensive to trade, while increased volatility also means the risk of a large variation margin calls. Aggregate open interest in London cocoa stands at a little under 227kk lots (2.27m tonnes), the lowest level since June 2021.

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