The Commodities Feed: A week of pressure

Your daily roundup of commodities news and ING views

Energy

It has been a week of pressure for the oil market. ICE Brent has fallen more than 8% since last Thursday, trading at its lowest levels since late May. Hawkish comments from the US Fed continue to weigh on risk assets, with concern that the Fed will have difficulty reining in inflation without pushing the US economy into recession. The move lower in oil appears to be almost exclusively driven by macro influences, while oil fundamentals still remain supportive. We just have to look at the time spreads, which have not followed the flat price lower over the week. Instead, the prompt ICE Brent time spread has actually strengthened as the flat price has weakened. The Aug/Oct spread has traded out to a backwardation of US$3.59/bbl, up from US$2.81/bbl last Thursday. This suggests that there is tightness in the market right now and we would expect this to only grow as we lose more Russian supply.

The EIA weekly petroleum report, which was scheduled to be released yesterday (already delayed due to a US public holiday on Monday) was further delayed. The EIA blamed a system issue for the further delay. The release will not be published this week, and the EIA is expected to give an update on Monday. This delay comes at a crucial time for the market when there are plenty of concerns over the tightness in refined product markets.

The only report that the EIA managed to release was its weekly natural gas update, which showed that US natural gas inventories increased by 74Bcf over the last reporting week, which was more than the roughly 62Bcf the market was expecting. This larger build put pressure on US natural gas prices, with Henry Hub falling 9% yesterday. Reduced LNG exports due to the Freeport LNG outage means the potential for larger domestic storage builds in the coming weeks.

Metals

LME copper slumped by more than 4% yesterday as demand concerns continued to weigh on sentiment; copper prices have now dropped by around 14% from the recent peak made at the beginning of the month. A more hawkish approach from the Fed and other central banks around the world has weighed heavily on the metals complex.

The risk-off sentiment in the market has not translated into higher demand for precious metals as of yet. This is likely due to the fact that real yields are in positive territory, limiting the appeal of holding gold. Total known gold ETF holdings have remained flat at around 105mOz since mid-May with physical demand also largely flat.

The latest data from the ILZSG shows that the global zinc market witnessed a small deficit of around 13kt over the first four months of 2022, as refined zinc production fell over the period. Operational issues at Australian mines and high energy prices in Europe have weighed on zinc production this year. For lead, the ILZSG reported that the global market witnessed a small surplus of around 20kt with both demand and supply falling from year-ago levels.

The LME zinc cash/3M spread continues to strengthen, hitting a backwardation of US$218/t, which is the highest level seen since 1997. LME zinc inventories have come under pressure in recent days, with on-warrant stocks falling to just 19.8kt, down from 59.6kt on Monday. This is the lowest level seen since at least 2000. The LME will likely be watching this closely, wanting to avoid a repeat of the squeeze seen in the nickel market earlier this year.

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