

# The Commodities Feed: Brent backwardation

Your daily roundup of commodity news and ING views



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## Energy

Oil had a strong week last week, with ICE Brent managing to settle above \$42/bbl once again, whilst the prompt ICE Brent time spread has also been trading in a small backwardation since Thursday, suggesting that we are seeing the market in the process of rebalancing. There were some more supportive developments over the week which helped to push oil higher once again, which included the IEA revising higher its demand forecasts for this year, whilst OPEC's own numbers showed that compliance amongst the group was also better than initial numbers had suggested.

At the OPEC+ Joint Ministerial Monitoring Committee meeting on Thursday, some countries who have fallen short of their production cuts so far, have come to an agreement on how they will compensate for these cuts in the months ahead. Iraq will cut its output by an additional 57Mbbbls/d in July, and then by an additional 258Mbbbls/d in August and September, according to media reports. These more positive developments appear at the moment to be outweighing worries over the outbreak of Covid-19 in Beijing.

Finally, the latest data from Baker Hughes shows that the number of active oil rigs in the US fell by 10 over the last week to total just 189. The number of rigs has now fallen by a little more than 72%, and a further decline of just 10 more rigs, will see the total count hitting the lows seen in 2009. It should be a fairly quiet week for the oil markets this week in terms of data releases, with just some further energy-related trade data coming out of China this week.

## Metals

Despite a rebound in the dollar, and an increase in Covid-19 cases in parts of the US and Beijing, copper continued to trend higher for much of last week. The high-level meeting between the US and China appears to have been supportive, with China said to boost US agricultural product purchases. LME copper prices have now advanced for 5 consecutive weeks, with inventory draws from both the LME and in China proving supportive. Although in its latest release, the International Copper Study Group estimates that the global copper market saw a surplus of 130kt in 1Q20, compared to a 12kt deficit during 1Q19.

Given that we are currently seeing the largest single daily increases in Covid-19 infections, there are still plenty of headwinds for industrial metals. On the copper side, there were reports on Saturday that Codelco is halting work on all construction projects in northern Chile, and will operate the Chuquicamata mine with reduced staff. In Indonesia, despite reports of 188 employees testing positive (COVID-19), PT Freeport Indonesia confirmed that the Grasberg copper/gold mine is operating normally.

The resurgence in COVID-19 remains a tailwind for gold, despite the yellow metal trading in a fairly tight range since April. Although the market rallied last Friday, edging closer to the US\$1,750/oz level. We expect gold to continue looking for a breakout in the short term, with safe-haven demand providing the catalyst.

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