The Commodities Feed: Brent under pressure

Your daily roundup of commodity news and ING views

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Energy

Oil has given back more of its recent gains, with ICE Brent slipping below US$68/bbl yesterday and breaking below the US$67/bbl level this morning. Overnight the API reported that US crude oil inventories increased by a significant 12.5MMbbls over the last week. Offsetting this were hefty drawdowns in both gasoline and distillate fuel oil inventories, with these falling by 8.5MMbbls and 4.8MMbbls respectively. This data is still reflecting the aftermath of the big freeze that we saw across the US Gulf in February, with refiners taking longer to get back up and running. We would expect to see a similar trend in EIA numbers today, with fairly large crude builds, and large product draws.

Sticking with the US, and the EIA's latest Short Term Energy Outlook saw some large revisions in their production forecasts for US oil output. The EIA now expects that 2021 US oil production will decline by just 173Mbbls/d YoY to average 11.14MMbbls/d, compared to a previous forecast of 11.02MMbbls/d. However, larger revisions were made to 2022, with the EIA now expecting that oil production next year will grow by almost 880Mbbls/d YoY to average a little over 12MMbbls/d, this compares to a previous forecast of 11.53MMbbls/d. These revisions do appear to contradict the belief from OPEC+ that "drill baby, drill gone forever", with stronger prices leading to increased drilling activity, as we are already seeing with Baker Hughes data. OPEC+ may not have to worry about US taking market share this year, however next year is likely a different story, with the EIA forecasting that US crude oil output will end 2022 at around 12.5MMbbls/d, just 360Mbbls/d short of the record output we saw in November 2019.

Metals

The copper/gold ratio fell amid a pullback in US 10 year yields. Copper does not seem to be very responsive to the softness in the USD, with profit-taking pushing the market lower. Instead, the market appears to be sensing some clear changes in policy tone from China' Two Sessions', and there are messages on de-leveraging and potentially slower credit growth. Meanwhile, looking at fundamentals, spot treatment charges remained under pressure, with them declining to almost US$36/t. On mine supply, Chile's exports value soared in February, after weak shipments in January due to disruptions at ports, which may provide some relief to smelters. Meanwhile, Peru's mines minister expects the nation's copper output to reach a record of 2.5mt in 2021, significantly higher than the 2.15mt produced last year.

Agriculture

The latest WASDE report from the USDA shows that for both corn and soybeans the agency left estimates for US ending stocks and US production unchanged from last month. The market had been expecting the USDA to revise lower their ending stock estimates. Meanwhile, looking at global balances, the USDA revised higher global ending stock estimates by a little over 1.1mt to stand at 287.67mt, on the back of slightly stronger output. While for soybeans, revisions higher to the Brazilian crop meant that global ending stocks for 2020/21 also edged marginally higher to 83.74mt (up 380kt MoM).

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