

The Commodities Feed: Delta fears grow

Your daily roundup of commodity news and ING views



Corona virus and oil rig

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Energy

Downward pressure on oil continues, with ICE Brent closing 2.8% lower yesterday, and edging back towards the US\$70/bbl level. WTI has already fallen below this level and is trading closer to US\$68/bbl. The key concern for the market remains the spread of the delta variant in China and the tougher mobility restrictions that have been imposed in some regions as a result. Obviously, the big uncertainty is how this situation will evolve in the coming weeks, and what it means for oil demand. For now, restrictions seem to be having more of an impact on domestic air travel, and so we are likely to see jet fuel demand coming under some pressure.

EIA data yesterday was also not very constructive, with US crude oil inventories surprisingly growing by 3.6MMbbls over the week, which is the largest weekly build since early March. The increase was largely a result of lower export volumes, with crude oil exports falling by 585Mbbls/d over the week to 1.9MMbbls/d - the lowest number since May. Exports appear to be finally reflecting the narrowing in the WTI/Brent discount that we saw over much of June and early July. The product side was more supportive of the market, with implied gasoline demand increasing by 450Mbbbl/d over the week, which led to gasoline inventories falling by 5.29MMbbls.

Finally, the Saudis released their official selling prices for September loadings, and as widely expected these were increased. Arab Light into Asia was increased by US\$0.30/bbl MoM to

US\$3/bbl, which is the highest level since February last year. OSPs for all other grades into Asia were also increased. The increase in prices comes at a time when OPEC+ members are also gradually increasing output, and so suggests that the Saudis have confidence that the demand will be there for this additional crude oil.

Metals

The industrial metals complex remained under pressure on Wednesday, with the fast spread of the Covid-19 delta variant in many parts of globe raising concerns, while a strengthening USD also weighed on the metals complex. Following the disappointing US ADP job numbers, gold had a knee-jerk response, jumping to US\$1,831/oz amid falling yields, but was unable to sustain these gains after some hawkish comments from Fed officials.

As for nickel supply, operations at Vale's Sudbury mine in Canada will resume next week, as workers accepted the management's latest proposal to end a two-month strike. Both parties resumed talks on 19 July, after labour unions rejected two previous proposals. The end of the strike will help ease supply concerns for metals, especially for the nickel pellet market. Meanwhile, Chile's monthly copper output rose 2.3% YoY to 477.3kt in June, primarily due to production gains at Codelco. On a year-to-date basis, cumulative production is still 1.2% lower YoY to stand at 2.8mt.

Finally, the most active SGX iron ore contract fell by over 2% yesterday, while futures on the DCE also remained under pressure, as market participants continued to expect strong action from policymakers in order to rein in steel production in the coming months. The latest reports suggest that nearly 20 steel mills in Tangshan city were advised to suspend operations at some of their sintering units from 3rd-10th August in order to reduce carbon emissions.

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