The Commodities Feed: Further OPEC+ supply increases to come

Your daily roundup of commodity news and ING views

Energy

Having traded to its highest levels since May 2019, ICE Brent came under some pressure in early morning trading today, venturing back below US$71/bbl at one stage.

USD strength has put some pressure on the market, whilst specific to oil, comments from Russian producers would not have helped. The CEO of Russian producer Gazprom said that “it’s important not to allow the market to overheat” and that “an oil price in a range of $65 to $70 a barrel isn’t stable in the long term”. He sees OPEC+ possibly agreeing to increase output at their July meeting. Lukoil’s CEO also expects that the group should agree to increase output from August and believes that “we shouldn’t allow a sharp hike in the price”. It shouldn’t come as too much of a surprise that Russian producers are making it clear that output should continue to increase in the months ahead, with Russia proving in the past that it is relatively more reluctant to hold supply from the market. Given that Brent is now trading above US$70/bbl, the pressure to increase output will likely only grow.

Saudi Arabia raised its official selling price for most grades of its crude oil into Asia for July. As a result, Saudi Aramco increased the OSP for Arab Light into Asia by US$0.20/bbl to US$1.90/bbl, which is the highest OSP for Arab Light since March 2020 and is also above what the market was generally expecting. This increase comes even though Saudi Arabia is set to increase output in July by almost 550Mbbls/d from June production levels. The Saudis also increased OSPs for all grades into Europe and the Med, whilst leaving levels unchanged for the US.

The EIA released its weekly inventory report yesterday, which showed that US crude oil inventories fell by 5.1MMbbls over the last week, which was fairly similar to the API numbers reported the previous day. The drawdown was a result of crude oil production estimated to have fallen by 200Mbbls/d WoW, whilst refiners increased utilisation rates by 1.7 percentage points, leaving them to average 88.7% over the week, which is the highest level since February 2020. On the trade side, crude oil imports fell by 642Mbbls/d WoW; however, this was more than offset by crude oil exports falling by 889Mbbls/d. The pick-up in refinery activity meant that refined product inventories increased over the week, with gasoline and distillate fuel stocks growing by 1.5MMbbls and 3.7MMbbls, respectively. Despite the increase in gasoline inventories, they still remain near a 5 year low for this time of the year. Given that gasoline demand is expected to pick up over the summer months, it suggests that gasoline inventories will remain tight.

Finally, next week is a fairly busy week for data releases. The EIA will be releasing its Short Term Energy Outlook on Tuesday, which will include US production forecasts. This will be followed by OPEC's monthly market report on Thursday and the IEA's monthly oil market report.

Metals

Prices of all major metals fell sharply yesterday, with LME copper falling more than 3.5% to close at US$9788/t (lowest close since April), with USD strength weighing on the complex. Further weakness in Chinese copper premiums will also have not done much to help sentiment. The Yangshan copper premium stood at around US$28/t yesterday, compared to US$43/t in early May, highlighting the limited buying interest in this higher price environment.

The latest data from Peru's energy and mining ministry showed that production of copper and zinc fell in April; however, year-to-date output remained above 2020 levels. Copper production fell 5.3% MoM to 173kt in April, while cumulative output over the first four months of the year increased 10% YoY to total 704kt. For zinc, output declined 3.7% MoM in April, while YTD production grew by 41% YoY. In Chile, state-owned Codelco produced 132.7kt of copper in April, down 0.5% YoY, while output at BHP's Escondida mine came in at 85.7kt over the month, down 16.5% YoY. As a result, total copper production in Chile fell 5.6% MoM and 2% YoY to 461.2kt in April.

Agriculture

India has brought forward its 20% ethanol blending target to April 2023 from an initial target of April 2025. The measure is aimed to support clean energy, reduce reliance on imported crude and support the agriculture sector in the country. With sugar cane a key feedstock for ethanol production in India, the measure should see the domestic sugar surplus shrink in the years ahead, and as a result, sugar exports should also slow. Therefore, in the longer term this is a supportive development for the global sugar market.

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