The Commodities Feed: Macro vs fundamentals

Your daily roundup of commodities news and ING views

Energy

Oil prices had their worst week since early April, with ICE Brent falling more than 7% over the last week. Concern over the macro outlook has weighed heavily on the oil market, despite fundamentals remaining constructive. As we mentioned last week, the weakness in the flat price has coincided with strength in the time spreads. The prompt ICE Brent spread is trading at more than a US$4/bbl backwardation, compared to US$2.77/bb a week ago. In addition, refinery margins remain very healthy, providing a clear incentive for refiners to maximize throughput rates, which is obviously supportive for crude oil demand.

G-7 nations are meeting at the moment, and discussions around a potential price limit on Russian oil appear to be on the agenda. It is suggested that any limits would be done through insurance and shipping. However, it would likely take some time to come to an agreement. It would require the EU to renegotiate its last round of sanctions, and some member countries may be reluctant to do so, given how long it originally took EU countries to finalize its Russian oil ban.

According to EU diplomats, Iranian nuclear talks are set to restart in the coming days, after failing earlier this year. Given the strength in oil prices, Iran may feel that they are in a stronger position when it comes to negotiations. The sticking point in talks has been Iran wanting the US to remove the Islamic Revolutionary Guards Corp from its terrorist list. Given that talks have been on and off for the last year or so, we expect that discussions will likely be drawn out, and so we are assuming that the supply of Iranian oil will only start increasing in early 2023.

As for the calendar this week, OPEC members are set to meet on Wednesday, which will be followed by the OPEC+ ministerial meeting on Thursday. The group already agreed at its last meeting on larger supply increases for July and August. This week's meeting is likely to just confirm the supply increase for August.

Metals

Sentiment in the metals complex remained downbeat on Friday, despite a retreat in the US dollar. Prices of all major metals fell in London last week amid continued macro headwinds. LME Nickel was the worst performer amongst LME base metals, with prices falling 6.8% on Friday. Zinc prices fell more than 4%, despite the continued drawdown of on-warrant stocks in LME warehouses. The latest LME data show that zinc on-warrant stocks declined by 4.85kt, hitting a fresh new low of 15kt on Friday. This took the total decline in on warrant stocks to more than 43kt over the last week.

It seems as though G7 countries are set to announce a ban on Russian gold imports, which on the surface sounds significant, given that Russia is the third-largest producer globally. However, the gold industry has already largely shunned Russian gold. The London Bullion Market Association back in March already suspended the accreditation of Russian gold refiners. This would explain why we are seeing a very limited reaction in gold prices this morning, with spot gold trading only marginally higher.

The latest CFTC data show that speculators increased their bearish bets in COMEX copper for a second consecutive week. Speculators sold 9,164 lots over the last reporting week, leaving them with a net short of 15,959 lots as of last Tuesday. Moving to COMEX gold, speculators increased their net long by 12,255, leaving them with a net long of 61,816 lots as of last reporting week.

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