

The Commodities Feed: Manufacturing activity supports the complex

Your daily roundup of commodity news and ING views



Energy

Oil markets got a boost higher yesterday, following better than expected US manufacturing activity, with the ISM survey hitting levels last seen back in March 2019. This was enough to push ICE Brent back above US\$44/bbl. However clearly, there is hesitation regarding the forward path of the market, and hence this holding pattern it has been in for over a month now. As mentioned yesterday, preliminary numbers show that OPEC output has already started to edge higher, and will continue to do so this month, given the easing in cuts. The latest output data from Russia (which includes condensate) shows they pumped 9.37MMbbls/d in July, slightly higher than the 9.33MMbbls/d produced in June. If we strip out condensate output, this should leave crude oil output fairly close to the 8.5MMbbls/d target for July. As for August, there are reports that Russian producers have already started to increase output, with production at around 9.8MMbbls/d over the first two days of the month.

Later today the API will release inventory numbers for the US, and expectations are that crude oil inventories declined by 3.5MMbbls over the last week. On the product side, gasoline inventories are expected to have fallen by around 1MMbbls, whilst distillate stocks are expected to have grown by almost 1MMbbls. EIA data shows that distillate inventories are already at their highest levels since

1982, and as long as we continue to see extremely weak jet fuel demand, this is likely to continue weighing on middle distillates.

Metals

Aluminium and copper led the pack higher yesterday, as metals received a fresh dose of optimism, following better than expected US manufacturing activity, while expectations for Chinese demand remain strong. Meanwhile, reports suggest that Codelco is to restart its Chuquicamata copper smelter after halting operations in late June, due to Covid-19. Looking at premiums, the Shanghai Yangshan copper premium has come off a bit this week, with the import arbitrage window staying shut.

Turning to ferrous metals, and the most-active iron ore contract on SGX surged more than 4% yesterday to a one-year high of above US\$110/t, after China's economic data buoyed hopes of a more substantial economic recovery and healthy demand for the raw material. Meanwhile, some of the steel mills in the country have been returning to operations, after disruptions last month due to floods, which has offered some further support to iron ore demand. Iron ore stocks at Chinese ports increased by another 1.9mt over the past week, but total inventories still remain below the 5-yr average for this stage of the year.

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