The Commodities Feed: Nuclear deal remains elusive

Your daily roundup of commodity news and ING views

Energy

Despite downward pressure on much of the commodities complex last week following the FOMC meeting, oil finished the week on a relatively strong footing, and in fact, still managed to settle higher on the week. This morning, ICE Brent is trading firmer, with the latest round of Iranian nuclear talks failing to lead to a deal. Furthermore, only to complicate matters, Iran elected a new president last week, and this has the potential to further delay talks, particularly given that the new incoming president is currently under US sanctions.

The latest positioning data shows that speculators increased their net long in ICE Brent by 21,521 lots over the last reporting week, leaving them with a net long of 312,266 lots as of last Tuesday. The bulk of this increase was driven by fresh longs entering the market. It is important to point out that this data predates the FOMC meeting, and so positioning is likely to be somewhat different currently. Similarly, speculators increased their net long in NYMEX WTI by 27,853 lots over the week, leaving them with a net long of 410,092 lots. This is the largest net long that speculators have held in WTI since July 2018. A rebound in US refinery run rates, along with a limited supply response in domestic crude oil output has helped to tighten the US market and see crude oil inventories fall further below the 5-year average. As a result, the WTI/Brent discount continues to narrow, briefly trading at less than US$2/bbl on Friday.

The latest rig count data from Baker Hughes shows that the number of active US oil rigs increased by 8 over the last week to total 373. While the rig count has increased by almost 117% since bottoming out in August last year, it is still a little more than 45% below mid-March 2020 levels. Similarly, Primary Vision's frac spread count increased by 5 over the week to 235. In the current price environment, both drilling and fracking activity should continue to trend higher. However, this is unlikely to lead to significantly more upside in US oil output this year, instead, we are likely to see stronger supply growth next year.

Finally, it is a quiet week in terms of data releases for the oil market. However, there will likely be growing noise around next week's OPEC+ meeting, and what the group may decide to do with production policy from August onwards.

Metals

Metal markets finished last week still feeling the effects of the more hawkish FOMC meeting. The base metals complex remained under pressure, and ended Friday lower, with investor longs liquidating. LME copper closed at US$9,146/t, the lowest level since mid-April and more than 8% down on the week, after breaking below the 100-day moving average. In addition, certain data releases point towards a weaker China market amid the recent pushback from the authorities and downstream physical players. China's exports of unwrought copper and copper semis rose by 3.4% MoM (67.7% YoY) to 79kt in May, according to the latest data released by China Customs last Friday. However, this is still relatively small compared to imports, which came in at 446kt last month, up by 2.3% YoY. There is no detailed data on the breakdown of unwrought copper and semis yet, but part of the unwrought copper exports seem to have gone into LME Asian warehouses.

Meanwhile, China continued to absorb the aluminium surplus from the offshore market. Imports of unwrought aluminium and aluminium products jumped 89% YoY to 225kt in May, bringing total imports during the first five months of the year to 1.17mt (+121.5% YoY). China switched from a net exporter last year to a net importer of primary aluminium and alloys products this year, with the market shifting to a deficit. As for steel, imports fell 5.8% YoY to stand at 1.2mt in May. However, YTD imports are still up 11.6% YoY, to 6.1mt.

Agriculture

The latest trade data from China's Customs shows that demand for imported corn remains strong, with China importing 3.16mt in May, up 395% YoY. Cumulative imports over the first five months of the year are up 323% YoY to 11.7mt. This stronger demand reflects an increase in animal feed demand, with the pig herd recovering following the African Swine Fever outbreak, as well as the need to replenish depleted stockpiles.

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