The Commodities Feed: Oil bounces back

Your daily roundup of commodities news and ING views

Energy

The oil market continues to recover following its recent sell-off. ICE Brent closed a little more than 2.5% higher yesterday, leaving the market not too far off the US$120/bbl level. A relaxation in China's covid policy would have been supportive, with the government cutting the length of quarantine for travellers. In addition, supply disruptions in Libya would also have provided a boost to prices. As we have mentioned several times over the last week or so, oil fundamentals remain constructive. This is evident when looking at the time spreads, which have strengthened considerably over recent weeks.

Numbers overnight from the API show that US crude oil inventories declined by 3.8MMbbls over the last week, whilst Cushing crude oil stocks fell by 650Mbbls. Refined products received some relief, with the API reporting that gasoline and distillate stocks increased by 2.85MMbbls and 2.61MMbbls respectively. The EIA is scheduled to release its weekly inventory report later today, which will also include the delayed weekly report from last week.

OPEC is set to meet today, while the broader OPEC+ group is set to meet tomorrow. It is widely expected that an already agreed supply increase of 648Mbbls/d for August will be confirmed. However, as we have seen in recent months, it is highly unlikely that the group will be able to boost supply by this amount, given the limited spare capacity amongst members and the expectation that Russian oil output will decline as we move closer to the EU's ban on Russian seaborne crude oil imports.

Metals

The LME zinc cash/3m spread has eased considerably this week, trading down to a US$57/t backwardation, after hitting a high of US$218/t last week. The aggressive decline in on-warrant stocks appears to have eased some concerns in the market. In addition, there are some suggestions that we could see China supply stepping in to help ease the tightness in the LME market. Zinc inventories at Shanghai warehouses currently stand at around 138kt, up from 64kt at the start of the year.

As for copper, the latest preliminary data from the Japan Copper and Brass Association showed that production of copper and copper-alloy fabricated products reported a fifth straight month of YoY declines in May, due to sluggish demand from the auto industry and covid-related disruption in China affecting the primary demand segments for the metal. Monthly output dropped 2.7% YoY and 9.5% MoM to 59.7kt in May, the lowest level since February.

Agriculture

Brazil's sugar industry association, UNICA reported that sugar production in Center-South Brazil dropped 3.8% YoY to 2.14mt over the first half of June. Sugar production has picked up pace over recent weeks, although it remains below the levels seen a year ago. Cumulatively, sugar production has fallen by 23.6% YoY to 7.2mt. UNICA reported that sugar cane crushing increased by 5.8% to 38.6mt over the first half of June. However, sugar cane allocation for ethanol production remains high with ethanol production increasing 6.3% YoY to 1.8bn litres. Around 55.6% of sugar cane was used for ethanol production. The sugar content of the cane fell to 131kg/t over the 1H Jun compared to around 138.5kg/t a year ago.

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