The Commodities Feed: Oil comes under pressure

Your daily roundup of commodity news and ING views

Energy

The downward pressure on oil has continued in early morning trading in Asia today, with growing Covid-19 cases and tensions between China and the US doing little to help sentiment. In addition to this, the OPEC+ JMMC will meet tomorrow, and the growing consensus is that they will ease cuts from the 1 August, which would see output cuts fall from 9.6MMbbls/d currently to 7.7MMbbls/d. Sticking with OPEC, and later today, the group will release its monthly market report, which will provide OPEC production numbers for June, and so give more insight into compliance with the deal so far. Although preliminary numbers showed that compliance for the group was over 100%, that was predominantly driven by additional cuts from Saudi Arabia, the UAE and Kuwait.

Yesterday the EIA released its latest Drilling Productivity report, in which they estimated that shale oil production will fall by 56Mbbls/d in August to average 7.49MMbbls/d. Looking at drilled but uncompleted wells (DUC's), both drilling and well completions edged lower over June, and DUC inventories increased by 35 over the month to total 7,659. This is the first increase since April and the largest monthly increase since May 2019. However with the stronger price environment, along with suggestions that completion activity is recovering from the lows seen in May, this suggests that completions will increase in the months ahead, and in doing so, draw down DUC inventories.

Later today, the API will release US inventory numbers, and expectations are that US crude oil inventories fell by around 1.8MMbbls over the last week. On the product side, gasoline stocks are expected to have fallen in the region of 1MMbbls, whilst distillate fuel oil inventories are thought to have increased by 1.5MMbbls.

Finally, the latest trade data from China shows that crude oil imports into the country for the first 6 months of the year totalled 269mt, up 9.9% YoY, which is equivalent to around 10.83MMbbls/d.

Metals

Copper continues to fire on all cylinders as production-side uncertainties in Latin America continue to fuel the supply risk premium. Overnight, supervisors at Antofagasta's Centinela copper mine rejected a final wage offer and voted to strike. This follows similar action seen at Antofagasta's Zaldivar mine on Friday. LME copper closed almost 2.5% higher yesterday, which took it to the highest levels seen since April 2019. The LME copper cash/3M spread is now trading in backwardation, for the first time in more than a year, reflecting the growing tightness in the physical market. LME copper inventories have been gradually falling since mid-May, with more than 100kt of copper stocks withdrawn over the past two months.

Turning to aluminium, LME on-warrant inventory continues to grow, increasing by more than 48kt (primarily from Malaysia) yesterday. This saw aluminium close largely flat yesterday. Meanwhile, as the ShFE front-month contract (al2007) approaches expiry, it appears as though a squeeze is underway. The spread between the front-month and the third-month (al2009) contract has exploded to RMB 845/t; the spread between the second-month contract (al2008) and the third also tightened, but to a lesser extent at RMB260/t. In the alumina market, China local prices have risen to the highest since March following recent action taken by Chalco on 'flexible production'.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

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