The Commodities Feed: Oil continues to strengthen

Your daily roundup of commodity news and ING views

Energy

Oil continued to strengthen yesterday, with ICE Brent rallying more than 2% to settle above $43/bbl, which is the highest close since early March. It is clear that sentiment in the market remains positive, with the more constructive rhetoric from last week spilling over into this week. The key focus continues to be the rebalancing of the oil market, driven by OPEC+ cuts and recovering demand. Last week, Iraq and Kazakhstan provided details to OPEC+ on how they plan to compensate for their lack of compliance with the output cut deal so far, while yesterday there were media reports that Nigeria has now also submitted its plan on dealing with its poor compliance to date. The fact that OPEC+ is wanting to know how countries who are falling short will make up for their poor performance does give some more confidence to the market that we may actually see compliance improve, although, with no enforcement mechanism, this may turn out to be a false hope.

According to reports, the deputy Russian energy minister believes that an oil price of between $40-50/bbl is a fair and balanced price. While the Russians may be comfortable with an oil price in that region, it is pretty clear that OPEC members would be keen to push oil prices beyond that range, in order to take some pressure off their fiscal budgets. This will certainly be an interesting dynamic to watch in the months ahead, with producers within the group having differing views on where the equilibrium price should be, and as a result when production cuts should be further eased.

Finally, the API will release its US inventory numbers later today, and expectations are that US crude oil inventories increased by 2MMbbls over the last week. Stock draws of 1.7MMbbls and 500Mbbls are expected for gasoline and distillate fuel oil.

Metals

The base metals complex is caught between rising virus fears and a weaker dollar, while copper has been given a boost from the elevated supply risks coming from the largest miner, Chile. There were reports yesterday that the union of the El Teniente mine, the world's largest underground mine owned by Codelco, has agreed to work a 14-day-on-14-day off schedule due to the virus threat. However, so far there has been no confirmation as to whether output can be maintained under this new work schedule. The mine produced around 440kt copper last year. Reduced operations at the mine for a prolonged period is an obvious mine supply risk, which could put some further pressure on treatment charges.

Aluminium prices have also demonstrated some resilience, with LME 3M prices anchored around the US$1,600/t level despite a surge in reportable inventories. Although in the Chinese market, we continue to see destocking, which remains supportive for prices. Looking at raw materials, Norsk Hydro said it will trim alumina output at its Alunorte plant after a power outage at its Paragominas bauxite mine. During the repair process, which is estimated to be 2-3 weeks, Alunorte will be running at 50-70% of capacity. Recently, alumina prices have been on the rise, with Australian FOB prices rising by 4% from the end of last month.

Turning to zinc, and the latest data from the International Lead and Zinc Study Group (ILZSG) shows that global zinc production rose 3% YoY to 4.4mt, while demand fell 5% YoY to 4.2mt over the first four months of the year. The zinc market saw a surplus of 241kt between January and April, compared to a deficit of 81kt during the same period last year.

Finally, the most active SGX iron ore contract has fallen below US$100/t, after Vale resumed some operations at its Itabira complex last week, along with an expected seasonal demand drop from China. The demand side continues to remain fragile as the latest data from the World Steel Association shows that global steel production dropped 8.7% YoY to 149mt in May, as economies continue to struggle with the on-going difficulties of Covid-19. Global steel production totalled 729mt during first five months of the year, down 5.2% from the same period last year.

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