

The Commodities Feed: Oil marches higher

Your daily roundup of commodity news and ING views



Energy

While large parts of the commodities complex came under pressure yesterday, oil bucked the trend and continued its move higher. ICE Brent broke above US\$74/bbl, and traded to levels last seen back in April 2019. Sentiment is likely to remain positive today, with the API reporting overnight that US crude oil inventories fell by 8.54MMbbls over the last week, much more than the roughly 2.5MMbbls decline the market was expecting. If the EIA reports a similar fall in inventories later today, it would be the largest decline since January.

The strength in oil has been led by the US, with the WTI/Brent discount quickly closing in on US\$2/bbl, having traded a little over US\$4/bbl in April. Refinery runs in the US have picked up considerably, back to levels last seen in January 2020, while crude oil output continues to hover around the 11MMbbls/d mark. These factors combined with lower imports (due to ongoing OPEC+ supply cuts) have helped to tighten up the US crude oil balance. The narrowing in the WTI/Brent spread suggests that we should see US crude oil exports trending lower.

While the recent move higher in the oil market has been driven by optimism over the demand outlook, refinery cracks suggest that the rally in crude oil may be getting a bit ahead of itself. If the demand story was as optimistic as the move in crude oil suggests, you would think that the move

higher in prices would have been led by the refined product market. However, in the US, both gasoline and heating oil cracks have come under pressure recently. We would have more confidence in this oil rally if these product cracks moved higher with oil prices.

If this strength is sustained until early next month, it only increases the likelihood that OPEC+ agree on some aggressive production increases when they meet on 1 July. With ICE Brent not too far away from the mid-\$70s, it will become increasingly difficult for OPEC+ to continue to hold a sizeable amount of supply from the market. After the last OPEC+ meeting, Russian oil producers made it pretty clear that they expect the group to increase output further from August. Even after taking into consideration the 2.1MMbbls/d supply increase between May and July, OPEC+ still have almost 6MMbbls/d of supply to bring back to the market, which should more than offset the expected demand recovery in the months ahead.

Metals

A major sell-off was seen across the base metals complex yesterday, with LME 3M copper plunging by more than 4%, touching an intraday low of US\$9,511/t. While technicals may have accelerated the move in copper yesterday, a combination of both macro and fundamental factors have suggested that the bull run in base metals may need to take a breather. The retreat came just ahead of the US Fed meeting which is scheduled for later today, while there has also been growing pushback from downstream physical players.

We [discussed](#) last week that speculation around Fed tapering could lead to strong market gyrations and a bumpy road ahead for copper. Meanwhile, news of China's State Reserve Bureau (SRB) possibly releasing stocks continues to weigh on market sentiment. Onshore investors have been cautiously monitoring the amount of stocks that are genuinely hitting the market. A more important factor is the message that Chinese authorities are sending to the market, with their efforts to curb the excessive run in commodities prices.

For copper, the collapse in the front-end spread has made it vulnerable and suggests no imminent tightness. The LME cash/3M spread hit US\$62/t (backwardation) back in late February, but it has plunged to \$33/t (contango) as of yesterday. The ebb and flow in LME copper stocks is not a rare spectacle, but the recent pick up in LME Asian warehouses may be a more alarming sign to bulls. Total stocks in LME Asian warehouses have grown from around 4,775t at the start of last week to 21,450t yesterday, which seems to coincide with earlier reports that Chinese smelters are exporting copper.

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