

The Commodities Feed: Oil marches higher

Your daily roundup of commodity news and ING views



Oil prices are trading softer this morning, with further talks between the US and Iran planned for Thursday

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.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.