

The Commodities Feed: Oil timespreads weaker

Your daily roundup of commodity news and ING views



Energy

While the oil flat price remains fairly well supported, with ICE Brent trading just above US\$45/bbl, there are some clear worries in the market. Timespreads continue to edge deeper into contango, questioning the extent at which the market is drawing down stocks. The front month ICE Brent timespread is now trading at a contango of more than US\$0.50/bbl, levels last seen back in May. Clearly the market is not tightening as quickly as initially anticipated. Demand is taking longer than expected to get back to normal levels, and this was reflected last week, with both the IEA and OPEC revising lower their demand estimates for both this year and 2021. Meanwhile US producers have brought back wells that they had shut-in over 2Q20 fairly quickly- data out of North Dakota shows that producers in the state pumped 890Mbbbls/d in June, up from 859Mbbbls/d in May. This trend would have only picked up further in July and August.

Although, given the collapse in drilling activity, it will be difficult for US producers to sustain current production levels. Latest data from Baker Hughes shows that the oil rig count fell by a further 4 over the last week, taking the total number of active rigs in the US to just 172- a far cry from the 683 rigs seen in mid-March. Although US producers should be able to bring back some production, even with the limited drilling activity. The Industry is still sitting on a large amount of drilled but uncompleted wells (DUCs), and so can complete these wells in an attempt to sustain production levels. The EIA will release its Drilling Productivity Report later today, which will include DUC

inventory, and completion activity over July.

Finally, the OPEC+ Joint Ministerial Monitoring Committee will have their monthly meeting this week. The meeting was scheduled for Tuesday, although it looks as though it will be pushed back by a day. No surprises are expected from the meeting, with OPEC+ expected to continue with cuts in their current form. The committee will also look at compliance of the group over July, and there will also very likely be a focus on how stragglers in the group are making up for their poor compliance.

Metals

Looking at latest CFTC data, it was no surprise that we saw a fairly sizeable reduction in the speculative net long in Comex gold, given the selloff in the market early last week (coinciding with the rally in US treasury yields). Over the last reporting week, speculators reduced their net long in Comex gold by 23.3k lots over the reporting week, to leave them with a net long of 150k lots as of last Tuesday – the lowest level seen which pushed the net bullish bets to an eight-week low. Meanwhile, total known ETF holdings of gold fell for a sixth consecutive day, with outflows of 127koz on Friday, taking total holdings to 108.29moz.

Finally, latest data from China’s National Bureau of Statistics shows that the country produced record volumes of primary aluminium and crude steel last month following the on-going post Covid-19 recovery. China’s primary aluminium production picked-up for a third consecutive month, output rose 3.9% YoY and 2.6% MoM to total 3.1mt in July. Meanwhile Chinese crude steel output jumped 9.6% YoY to 93.3mt last month, on the back of better demand prospects with the government’s continued commitment to infrastructure spending. Cumulative steel output so far this year stands at 593mt, up 2.8% YoY.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	44.80	-0.36	-27.78	Spot Gold (US\$/oz)	1,945.1	-0.44	28.20
NYMEX WTI (US\$/bbl)	42.01	-0.54	-31.20	Spot Silver (US\$/oz)	26.4	-3.85	48.14
ICE Gasoil (US\$/t)	375	-0.53	-36.55	LME Copper (US\$/t)	6,367	1.77	3.12
NYMEX HO (Usc/g)	124	-0.11	-39.03	LME Aluminium (US\$/t)	1,746	-0.99	-3.54
Eurobob (US\$/t)	393	0.40	-33.48	LME Zinc (US\$/t)	2,368	-0.32	4.20
NYMEX RBOB (Usc/g)	124	0.79	-26.69	LME Nickel (US\$/t)	14,366	1.88	2.43
NYMEX NG (US\$/mmbtu)	2.36	7.97	7.63				
TTF Natural Gas (EUR/MWh)	8.02	9.67	-33.46	CBOT Corn (Usc/bu)	325	-0.23	-16.31
				CBOT Wheat (Usc/bu)	500	0.65	-10.51
API2 Coal (US\$/t)	50	-0.90	-14.51	CBOT Soybeans (Usc/bu)	904	-0.41	-4.19
Newcastle Coal (US\$/t)	51	0.79	-26.29	ICE No.11 Sugar (Usc/lb)	13.10	-0.08	-2.38
SGX TSI Coking Coal (US\$/t)	112	-0.29	-21.02	ICE Arabica (Usc/lb)	115	-1.29	-11.57
SGX Iron Ore 62% (US\$/t)	116	0.15	26.88	ICE London Cocoa (GBP/t)	1,693	-0.06	-6.93

Source: Bloomberg, ING Research

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