

# The Commodities Feed: Oil under renewed pressure

Your daily roundup of commodity news and ING views



## Energy

Oil markets came under renewed pressure yesterday, with ICE Brent settling more than 5% lower on the day, and edging back closer towards the US\$40/bbl level. A surge in Covid-19 cases in the US is certainly not helping sentiment, with worries over what this could mean for demand if this trend continues, while trade developments have not been helpful either. The EIA also released a more bearish than expected inventory report, with US crude oil inventories increasing by 1.44MMbbls over the last week, taking stocks to a record 540.7MMbbls. Production saw an increase of 500Mbbls/d over the week, but that would have largely reflected disrupted production in the US Gulf of Mexico coming back online after tropical storm Cristobal. Meanwhile, refinery activity continues to edge higher, with utilisation rates increasing by 0.8 percentage points to 74.6%.

Product inventories were more bearish, with gasoline stocks falling by 1.67MMbbls over the week, which is quite a bit less than the 3.86MMbbls draw the API reported the previous day. While on the distillate fuel oil side, the EIA reported a surprise build of 249Mbbls. Although if you want to find something positive, then look at the demand numbers, with implied gasoline demand increasing by 738Mbbls/d over the week to 8.6MMbbls/d, which is up about 3.5MMbbls/d from the lows seen in April.

Finally, the latest Dallas Fed Energy survey confirmed what many in the market were expecting, and that is that US producers will start to bring back shut-in wells at current price levels. 36% of

producers surveyed, and who had shut-in production, said they expect to restart this production by the end of June, while 20% expect to restart shut-in production by the end of July. 30% of those interviewed, believed that producers would bring back shut-in wells at a WTI price range of US\$36-40/bbl, which is basically where we are trading at the moment, while 27% believed you would need a price within the range of US\$41-45/bbl. Bringing back shut-in wells may provide a brief uptick in US production in the near term, but the lack of drilling activity means that US producers will likely be unable to sustain current production levels.

## Metals

Macro events dictated price action in the metals complex yesterday, with most metals settling lower. In its latest global outlook, the IMF projects that global GDP will contract by 4.9% this year, compared to a previous forecast for a 3% contraction. For 2021, the IMF expects global growth of 5.4%, also lower than its previous projection of 5.8%. Not helping sentiment is the news that the US is considering imposing tariffs on US\$3.1b worth of goods from the EU and UK. While there are also reports that Canada could retaliate if the US re-imposes a 10% tariff on Canadian aluminium, which it has threatened.

Looking at exchange inventories, the latest data before ShFE closes for holidays continued to show that copper inventories fell for a sixth consecutive week. Copper stocks at exchange warehouses dropped 9% (10kt) over the week to total 99.9kt (lowest since Jan'19) as of 24th June. Copper inventories on the LME tell a similar story, falling by 2.4kt yesterday, and taking the total to 226kt. The net outflows for the month now stand at 30kt, compared to net inflows of 10kt last month.

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