

# The Commodities Feed: OPEC output falls further

Your daily roundup of commodity news and ING views



## Energy

A larger than expected drawdown in US crude oil inventories has provided some strength to oil markets in early morning trading in Asia. The API reported overnight that US crude oil inventories declined by 8.16MMbbls, significantly more than the 500MMbbls drawdown the market was expecting. On the product side, API numbers showed that gasoline inventories fell by 2.46MMbbls, while middle distillates saw a build of 2.64MMbbls. The crude numbers are clearly constructive, however, we will need to see what the more widely followed EIA numbers show, which will be released later today.

The latest monthly production numbers from the EIA show that US crude oil production in April fell by 669MMbbls/d MoM to average 12.06MMbbls/d - output levels which were last seen in July 2019. Given that we saw a significant number of US producers shutting in production over May and June, this means that the downward trend in output would have continued for these months.

Finally, we are already starting to get OPEC oil production estimates for June, with numbers from the Reuters survey showing that the group's output fell by 1.92m b/d MoM to 22.62m b/d over June. This would be the lowest production number seen from OPEC at least since 2000. The fall in

output means that OPEC over-complied with the deal in June, with compliance coming in at 107%. However, this over-compliance is due to Saudi Arabia, the UAE and Kuwait cutting by additional volumes over June. These three countries had to cut by an additional 1.2m b/d just for this month. Therefore it is likely that compliance will slip again in July, unless we see a significant improvement in compliance from Iraq and Nigeria - their individual cuts in June still fell short, with compliance of 62% and 72% respectively.

## Metals

The positive run in base metals continued yesterday, with economic data from China supporting demand prospects and prices in the immediate term. The Chinese manufacturing PMI continues to show decent expansion, although export orders continue to suggest weak external demand. Copper has received further support from LME stock withdrawals, with inventories having fallen by nearly 32kt over the past two weeks, and currently standing near a 3-month low of 216.6kt. As a result, the contango in the cash/3M spread has tightened significantly recently.

Whilst metals prices have been well supported, speculators appear to be cutting down on bullish bets, as trade and geopolitical uncertainties continue to linger. LME data shows that the speculative net longs in aluminium dropped by 33,695 lots over the last week with speculators holding a net-long of 87,338 lots, the lowest level in nearly four months. Similarly, net longs in LME zinc also dropped by 4,950 lots over the last week. For copper, net longs increased by 1,003 lots over the last week; however, this was mainly a result of short covering.

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