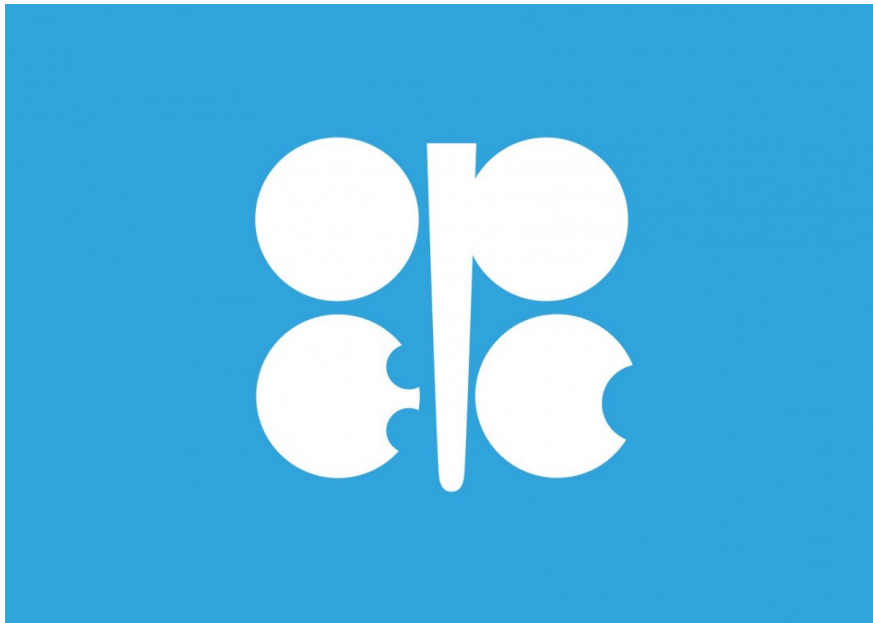


The Commodities Feed: OPEC struggling

Your daily roundup of commodities news and ING views



Energy

The oil market has held up relatively well when considering the deteriorating macroeconomic picture. Data released on Friday saw the US ISM manufacturing index come in below expectations for June, while new orders fell into contraction territory, which is not a great sign for production over 2H22. Despite this, ICE Brent still managed to settle almost 2.4% higher on Friday, which also saw the market settle higher over the week. Constructive oil fundamentals continue to counter the weakening macro environment at the moment. The prompt ICE Brent spread continues to point towards a tight market, with the Sep/Oct spread trading as high as US\$3.89/bbl on Friday.

A key factor behind the constructive view of the oil market is the inability of OPEC to significantly increase output. In fact, according to Bloomberg numbers OPEC production fell by 120Mbbls/d MoM in June to average 28.6MMbbls/d. If we look at just the OPEC members who are part of the OPEC+ pact, output totaled just 24.67MMbbls/d in June, around 1.2MMbbls/d below the agreed production level for the month. All producers with the exception of the UAE and Gabon failed to hit their agreed production levels. The failure of the group to hit these more modest supply increases makes it fairly clear that they will not get anywhere close to the more aggressive supply increases for July and August, and so the gap between where they are producing and where they should be producing will only widen. Not helping overall OPEC production are the continued disruptions from Libya, with output falling by 90Mbbls/d over the month to 670Mbbls/d, the lowest level since

October 2020.

The latest positioning data shows that speculators reduced their net long in ICE Brent by 11,689 lots over the last reporting week, leaving them with a net long of 197,199 lots as of last Tuesday. This move was predominantly driven by longs liquidating. Given growing fears of a recession, it appears that speculators are taking some risk off the table at the moment, despite the supportive fundamentals.

Concerns over Russian gas flows to Europe have continued to prove constructive for European natural gas prices. TTF rallied 15% over the course of last week, to settle close to EUR148/MWh. Nord Stream daily flows remain about 60% below levels seen over May. These flows will come to a complete stop between 11-21 July, as the Nord Stream pipeline undergoes its usual annual maintenance. In addition, there are supply risks from Norway, where strike action is set to start. Three fields - Gudrun, Oseberg South and Oseberg East - are set to shut on 5 July due to industrial action. These strikes are set to expand to a further three fields on 6 July. As a result of this action, around 13% of Norway's daily gas exports will be lost.

Metals

It was another rough week for industrial metals, with LME copper trading below US\$8,000/t for the first time since early 2021, and settling almost 4% lower over the week. Speculators increased their net short position in COMEX copper by 9,443 lots over the last week, leaving them with a net short of 25,402 lots as of 28 June, the most bearish position held by speculators since April 2020. Clearly, the deteriorating macro picture is weighing heavily on the metals complex. Given the current negative sentiment, it is no surprise that we have seen the copper/gold ratio falling to its lowest levels since February last year.

India has increased the basic import duty on gold from 7.5% to 12.5% (pushing up total import taxes from 10.75% to around 15% including cess) to control foreign currency outflow as the Indian Rupee plunged to a record low against the US Dollar. India is a major importer of gold, with imports of around 107 tonnes in May. Higher prices in the local market are likely to weigh on gold demand in the immediate term; especially when higher interest rates have already increased the relative cost of procuring and holding gold.

Agriculture

Speculative long liquidations continued over the past week as fears of an economic slowdown weigh on sentiment. CFTC data shows that managed money net longs in CBOT soybeans dropped by 29,915 lots over the week to 124,498 lots as of 28 June. Managed money net longs have now dropped to their lowest since late January. The speculative net long in CBOT corn also fell by a significant 36,649 lots over the week. Money managers trimmed their net longs in CBOT wheat by 2,915 lots over the week and now hold a net long of just 1,020 lots. Weaker economic sentiment and price action since the reporting period suggests that the managed money position could slip into net short territory in the next CFTC weekly report.

Russia has changed the formula to calculate export taxes on wheat, with basic prices now increased to RUB15,000/t (US\$284/t) compared to the earlier basic price of US\$200/t. Russia has progressive taxes on wheat exports, where the difference between the market price and basic price determines the export tax. Market reports suggest that the new formula could help save around US\$60/t in export taxes for Russian exporters and improve its competitiveness in the global

market.

In its latest Cereals Market Situation report, the European Commission lowered EU soft wheat output estimates from 130.4mt to 125mt for 2022/23, on reduced yields due to unfavourable weather. The Commission kept its acreage estimate unchanged at 21.8m ha.

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