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COMMODITIES DAILY

The Commodities Feed: OPEC supply grows in July

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

Having settled higher last week, the oil market has come under downward pressure in early morning trading today. There are likely some concerns over the spread of the delta variant in China. And while the number of daily cases is still low (just 75 on Sunday), strict measures have been introduced in affected cities, with some imposing partial lockdowns along with travel restrictions. We are also seeing other countries in Asia extending or reintroducing Covid-19 related restrictions. These include parts of Thailand and the Philippine capital, Manila, which will go back into lockdown from the 6 August for 2 weeks. Australia also continues to see cases growing, which has led to more regions in the country imposing restrictions. Brisbane and other parts of Queensland are the latest to announce lockdown measures over the weekend. Clearly, Covid-19 still poses a risk to the demand recovery, particularly in countries where vaccination rates are still low.

Moving to supply, and we are starting to get preliminary OPEC production estimates for July. According to a Reuters survey, OPEC output increased by 610Mbbbls/d MoM to 26.72MMbbbls/d, which is the highest output from the group seen since April last year. The increase was still

below the 760Mbbbls/d they could have increased by (including the return of voluntary cut volumes from Saudi Arabia). Unsurprisingly, Saudi Arabia saw the largest increase over the month, with output growing by 460Mbbbls/d.

The latest positioning data for ICE Brent shows that speculators increased their net long by 49,818 lots over the last reporting week, to leave them with a net long of 311,659 lots as of last Tuesday. This increase was predominantly driven by fresh longs and takes the speculative long back to the levels that we saw ahead of the selloff in mid-July.

Finally, this week will see the new Iranian president taking office, and with that the possibility of a resumption in nuclear talks. The market will be keen to see whether Iran takes a different approach under the new president. Although going into any potential meetings tensions are likely to be high, with the US blaming the Iranians for an attack on an Israeli tanker last week.

Metals

Despite supply risks, copper prices still came under pressure on Friday, probably due to the recovery in the USD. There are several risks to copper mine supply, including a setback in labour contract renewals from two mines in Chile, which could potentially lead to strike action. The unions that represent workers at Codelco's Andina copper mine, which produced 184kt copper in 2020, turned down an offer last Thursday. Meanwhile, workers at the world's largest copper mine, Escondida, also rejected their latest wage offer. We should see both mines entering government mediated talks in an effort to avert strike action.

A supportive factor for the copper market, at least for China, is the fact that stocks fell for the eleventh consecutive week in China. ShFE reported stocks fell by another 1,997t to 94kt last week, the lowest since February. The onshore market stock drawdown has led to an increased appetite for copper in bonded warehouses. Such stocks decreased by another 19kt last week according to SMM data. In contrast, LME copper stocks have continued to rise, reaching 240kt as of last Friday, the highest since June 2020.

Investors have boosted their speculative position in COMEX copper to a ten-week high, which has been predominantly driven by fresh longs. According to the latest data from the CFTC, the net long position grew by 16,937 lots over the last reporting period ending 27 July. With respect to aluminium, the LME 3M price hit a three-year high on Friday, driven by supply disruptions from China amid the latest round of power restrictions. As a result, Yunnan Shenhua said last week that it will miss its annual production target of 800kt. It is estimated to lose 50kt of production, which could see it produce around 750kt for 2021.

Agriculture

The CFTC's latest Commitment of Traders report showed that managed money net longs in No

11 sugar increased by 31,658 lots over the last reporting week largely on account of supply fears from Brazil due to frosty weather. The increase was predominantly driven by fresh longs of 27,315 lots whilst 4,343 lots of shorts were also covered. Among grains, speculators turned bullish once again for wheat on weaker supply prospects from the US. Money managers increased their net long in CBOT wheat by 6,837 lots over the last week. They held a net long position of 3,067 lots as of 27th July 2021. Managed money net longs in CBOT corn increased by 4,707 lots over the last week while net longs in CBOT soybeans dropped marginally by 1,823 lots over the week.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

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