The Commodities Feed: OPEC supply jumps in July

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Energy

Oil continues to trade in an incredibly rangebound manner, with Brent still anchored around the $43/bbl level. Speculators appear to be getting more nervous about the demand recovery, with the path much more gradual than market expectations coming into the second half of the year. The latest exchange data show that the managed money net position in ICE Brent decreased by 20,899 lots over the last reporting week, leaving a net long of 191,625 lots as of last Tuesday. Whilst similarly for NYMEX WTI, CFTC data show that speculators reduced their net longs over the last reporting week.

This stall in demand comes at a time when the market is already starting to see supply coming back. A Reuters survey shows that OPEC output increased by 970Mbbs/d MoM in July to average 23.32MMbbls/d, with the extra voluntary cuts from Saudi Arabia, the UAE and Kuwait ending. Obviously supply from OPEC+ will increase further this month, with the group starting to ease cuts, which means an additional 1.9MMbbls/d of supply entering the market. Given this additional supply, expectations are that the Saudis will cut their official selling price (OSP) for Arab Light into Asia for September. If this is the case it would be the first reduction since May. Aramco is expected to release the OSP for September later this week.

Metals

Spot gold has hit fresh highs in early morning trading in Asia, with prices trading above US$1,990/oz. Clearly support has come from US 10 year yields falling to a low of 0.5282%, whilst real yields hit negative 1% on Friday. Meanwhile, inflows into gold ETFs continue to surge, with net inflows of 4.98moz in July, taking total known ETF holdings to a fresh record of 107.91moz.

Most base metals remained in negative territory on Friday, as weak economic data from the US and Europe overshadowed the rebound in Chinese manufacturing. LME copper prices fell below US$6,400/t, whilst aluminium prices were also seen trading close to the US$1,700/t mark. Meanwhile, LME data showed that copper on warrant inventories continued to fall, posting their largest monthly decline since 2009, with inventories dropping by 88.4kt over July, taking total stocks to 128kt as of Friday. Looking at copper mine supply, the latest government data from Chile shows that output declined by just 0.6% to 472kt in June, as mines continued to operate with reduced staff due to the rise in Covid-19 cases among workers.

Finally, looking at CFTC data, the managed money net long in Comex copper hit a two-year high of 59.7k lots, having had a fairly neutral position at the start of June. Meanwhile for gold, despite the surge in prices in recent weeks, speculators remain largely on the side-lines. In fact, speculators reduced their net long in Comex gold by 9.7k lots over the reporting week, to leave them with a net long of 174.5k lots - still quite some distance from the record net long of 292k lots seen in September last year.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com