

The Commodities Feed: Pressure on the complex

Your daily roundup of commodity news and ING views



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Energy

Oil, along with the bulk of the commodities complex came under pressure yesterday, with ICE Brent settling below the US\$70/bbl level for the first time since 20 July. A stronger USD, growing taper expectations and continued concerns over the spread of the delta variant have weighed heavily on the commodities complex. There is still plenty of uncertainty about how the Covid-19 situation in China will evolve and what this means for oil demand and prices.

OPEC+ will have been watching the recent price action closely and will take comfort in the more cautious approach they adopted in terms of bringing supply back onto the market. While it is unlikely that the recent market weakness will see OPEC+ react, further weakness could see the group become increasingly concerned. OPEC+ meets on a monthly basis to review market conditions, with the next meeting set for 1 September. So, if we get to this meeting and there has been further price weakness, there is the real possibility that we see the group go back on their easing plan. It is for this reason that we believe that any downside in oil prices is fairly limited. We are of the view that further weakness provides a good buying opportunity, particularly when you consider that the market is set to see significant inventory draws this year (2022 is expected to be

more balanced). While China is a demand risk given the spread of the delta variant, we feel that the strong government action taken in affected regions means that these demand risks will be fairly short term.

Metals

Risk-off sentiment still grips the metals complex. The dollar index has jumped to a one-week high along with rising US yields. The fresh wave of Covid cases in China also adds to demand worries from the world's largest metal consumer. LME nickel led the correction amongst base metals, falling by more than 3%, and touching US\$18,540/t, while copper retreated to almost a three-week low, ignoring the pending strike risks at a number of Chilean mines. As for lead, prices tumbled to more than a 1-month low, and despite stocks continuing to leave LME sheds, the cash/3m spread collapsed from US\$89/t on 4 August to just above US\$11/t as of yesterday. However, the stark divergence between London and Shanghai stocks remains, with the latter surging to a record high. The metal's long term demand outlook is only souring further after China CATL unveiled a sodium-ion battery last week. Some industry experts expect this new type of battery will substitute demand for lead-acid batteries.

Moving to bulks, and demand concerns for raw materials rose as China's efforts on steel production cuts are showing signs of slowing output, whilst weak iron ore import numbers from China also weighed on prices. The China Iron and Steel Association (CISA) said that daily output from major steel firms surveyed fell 3% YoY in late July, which would mark the first year-on-year decline in steel output this year. For July, total daily crude steel production from key steel firms amounted to 2.14mt, 13.4% lower than a month earlier and a 4.4% dip from the same period last year.

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