

The Commodities Feed: Rangebound price action

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Energy

June has been a fairly quiet month for the oil market, with the front month ICE Brent contract trading in less than a US\$7/bbl range over the month, and prices have largely gravitated around the US\$40/bbl level.

The tightening of restrictions over the weekend in several US states due to a surge in Covid-19 cases did see oil prices wobble initially. However, the sell-off was short-lived. We still believe it is difficult to justify significant upside in prices in the near term due to the high levels of inventory, continued weakness in refinery margins, and the fear over a severe second wave of Covid-19. Therefore it looks likely that the market will continue to consolidate around current levels. The medium and long term outlook for prices remains more constructive, with deficits expected to persist through 2021, assuming that OPEC+ stick to their production cut deal. In fact, the Premier of Alberta in Canada see shortages in the oil market in 12-18 months with current prices just not providing enough of an incentive to make necessary investments.

It looks as though Libya is moving closer to restarting oil production, with the National Oil

Corporation hopeful that fields can re-open, after international talks to bring blockades from eastern backed forces in the country to an end. Libyan oil output has been offline for much of the year due to blockades, although there have been several attempts to bring output back online in recent weeks. If we do finally see a resumption in Libyan output, this would make the job of OPEC+ a little bit more difficult, as Libya pumped at around 1MMbbls/d prior to the disruptions.

Finally, later today the API will release weekly inventory numbers, and expectations are that oil inventories in the US declined by 750Mbbls over the last week. On the product side, gasoline inventories are expected to decline by around 1.7MMbbls, whilst distillate fuel oil inventories are expected to see a slight increase. Any demand hit on the gasoline side from the tightening of Covid-19 restrictions in Texas, California and Florida will likely be reflected in next week's release.

Metals

Supply-side disruptions have been keeping metals on a relatively strong footing, even as COVID-19 cases continue to surge higher. LME copper has traded briefly above US\$6,000/t recently, whilst aluminium has broken above US\$1,600/t. For copper, supply-side risks from Latin America, particularly from Chile and Peru are quite pronounced, as mining/refining operations continue to face disruptions due to labour shortages and possible lockdowns. For aluminium, a 2mtpa alumina refinery in Shanxi province in China is reported to have closed nearly half of its capacity over the weekend due to an equipment accident which could tighten the domestic alumina market over the coming weeks. This is reported to remove 50-80kt of alumina supply. This comes after reports last week that Hydro would reduce operations at its Alunorte alumina refinery after a power outage at the Paragominas bauxite mine.

Looking at major trends from the latest China Customs data, primary aluminium imports in May surged by 149% MoM (or +18.3kt), while total imports over the first five months of the year grew by 27% YoY. Meanwhile, May also saw aluminium alloy imports continue to surge by 8% from the prior month, which saw imports increase almost sevenfold from the same period in 2019. A key driver behind the stronger imports has been a profitable arbitrage. We believe that part of these imports will be used to fill the void left by reduced imports of scrap, which have fallen by 51% YoY. In line with expectations, exports of semis products continue to be weaker.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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