

The Commodities Feed: Reopening euphoria

Your daily roundup of commodity news and ING views



Energy

Optimism around the re-opening of economies in Europe, along with the US has proved constructive for the oil market. ICE Brent yesterday traded as high as US\$69.50/bbl at one stage, settling just short of 2% higher on the day. Clearly, the market is focusing more on re-openings, rather than the latest Covid-19 wave from the world's third-largest oil consumer, India. Part of the reason for this is the fact that the Indian government appears reluctant to impose a national lockdown, despite calls for one. However, if we were to eventually see a national lockdown imposed, this would likely hit sentiment.

Overnight, the API released its weekly inventory numbers, which showed that US crude oil inventories declined by 7.69MMbbls over the last week, which was much larger than the roughly 2MMbbls draw the market was expecting. This should provide some further immediate upside momentum for the market. Changes in refined product inventories were also constructive, with gasoline and distillate fuel oil stocks reported to have fallen by 5.31MMbbls and 3.45MMbbls respectively. Later today, the more widely followed EIA report will be released, and a similar crude number would mean the largest weekly draw since January.

Metals

Industrial metals continue to power on amid rising inflation expectations which hit a two-week high, while exchange inventories fell across the board, which provided further support. Investors have been increasingly focused on re-openings and the demand recovery, especially outside of China, which has become more evident of late. US Fed chair, Jerome Powell, also commented at the beginning of the week that the recovery in the US is “making real progress” and that the outlook has clearly brightened. This has led to rising net speculative length in copper along with other base metals, whereas the interest from producers to hedge has subsided. This suggests that producers see further upside to prices.

As for precious metals, the rally of the complex (led by silver) following the April US PMI reading (missed expectations) on Monday hit a wall after the latest hawkish comments from Janet Yellen who said that “It may be that interest rates will have to rise” to make sure the economy does not overheat. A stronger USD saw silver retreat to US\$26.3/oz after spiking to US\$27/oz earlier in Tuesday's sessions. These developments also saw spot gold failing to break above US\$1,800/oz, but instead falling back below US\$1,780/oz.

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