

The Commodities Feed: Saudi hikes OSPs

Your daily roundup of commodities news and ING views



Energy

The oil market is trading firmer this morning, despite OPEC+ members last week agreeing to a larger than usual supply increase for July and August. The market action since the meeting suggests that participants are unimpressed with the move from OPEC+. The group has failed to hit output targets for months, and this is unlikely to change with the latest increase in targets. Beijing also continues to ease Covid related restrictions, which will be helping sentiment.

Despite the announced increase in output targets, over the weekend the Saudis increased all official selling prices (OSP) for their crude going into Asia and Europe for July, whilst OSPs were left unchanged for the US. July loadings of Arab Light into Asia increased by US\$2.10/bbl MoM to US\$6.50/bbl over the benchmark. This increase was slightly more than the market was expecting.

Libya's largest oil field, the 300Mbbls/d Sharara field has finally restarted operations according to reports, after protests forced output to stop in April. In May, Libya produced under 800Mbbls/d, quite a bit lower than the 1.1-1.2MMbbls/d we saw produced over much of 2021. A recovery in output will be welcomed, given the EU ban on Russian oil. However, Libyan output has been volatile over the years, and that is unlikely to change anytime soon.

The latest market positioning data shows that speculators increased their net long in ICE Brent by 13,365 lots, leaving them with a net long of 210,437 lots as of last Tuesday. This is the largest net long that speculators have held since early March. However, it is still considerably below the levels seen in 2021 and the record levels from 2018. This is despite, a significantly tighter market at the

moment. This reflects a lack of interest in being overly exposed to the market, given the uncertainty and the potential for increased volatility. Aggregate open interest in ICE Brent tells a similar story, which is at its lowest level since 2015.

Refined product markets continue to reflect significant tightness, with plenty of strength in refinery margins over the last week. As weekly EIA data showed, US gasoline inventories continue to decline as we head into driving season, and given the seasonal pick-up in demand over the summer months, these inventories are likely to continue edging lower, providing further potential strength to gasoline cracks. The distillate market also shows no signs of an easing in the tightness. US distillate stocks remain well below the 5-year range, whilst in the ARA region of NW Europe, gasoil stocks are similarly at multi-year lows. There is no quick fix to this tightness in the products market. We will have to see either demand destruction or increased run rates from refiners. However, given how attractive margins are, refiners are likely to already be operating near capacity. What would help the products market would be for China to increase its export quota for refined products. However, up until now, there are no signs of them doing so.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.