

The Commodities Feed: Surprise inventory build

Your daily roundup of commodity news and ING views



Source: Shutterstock

Energy

It has been quite the week for oil, with ICE Brent plunging below US\$70/bbl, and trading to its lowest levels since May, with growing concerns over the spread of the Delta variant and what this will mean for demand. This is particularly the case in Asia where vaccination rates are still relatively low, and so governments in the region are having to tighten restrictions. We believe that the latest agreement between OPEC+ to increase output and extend the deal further into 2022 is supportive, given that it reduces the risk of the broader deal falling apart, and so minimizes the likelihood of a price war. The agreement has provided more certainty for the market, and so in theory should reduce volatility. However, clearly this week, macro and demand concerns have overshadowed supply developments.

While we saw a bit of a relief rally yesterday following Monday's sell-off, the market is still trading below US\$70/bbl and has come under a bit of downward pressure in early morning trading today after a bearish and rather surprising inventory report from the API. The API overnight reported that US crude oil inventories increased by 806Mbbls last week, which was very different from the roughly 4.5MMbbls drawdown the market was expecting. If EIA numbers confirm a stock

build later today, it would be the first increase in crude oil inventories since mid-May. In addition to the crude oil build, the API also reported that US gasoline inventories increased by 3.31MMbbls, whilst distillate fuel oil stocks fell by 1.23MMbbls.

Metals

Most base metals regained some lost ground after Monday's rout, with a steady in broader macro markets. For aluminium, the latest numbers from the International Aluminium Association (IAI) show that daily global primary aluminium output stood at 185kt in June, compared to 185.5kt a month earlier. On a monthly basis, total output rose 1.6% YoY, while declining 3.5% MoM to 5.6mt last month. For the first half of the year, output rose 4% YoY to 33.5mt. For China, whilst output in June jumped 4% YoY to 3.2mt, production was around 3% lower MoM due to ongoing production restrictions amid power shortages in Yunnan province. Cumulative output from China over the first 6 months of the year grew by 7.2% YoY to 19.5mt.

Turning to copper mine supply, the Escondida mine in Chile posted a production drop of 10%, leaving it at 1.07mt for the fiscal year that ended in June. This reduction was primarily due to falling ore grades and lower cathode output. For FY 2022, mine production is expected to be in the range of 1 to 1.08mt. Meanwhile, the miner maintains its estimate of average annual production at 1.2mt for the next five years.

Agriculture

Sugar prices got a boost yesterday, with No.11 settling just shy of 2% higher on the day. Brazil has been witnessing another round of frost this week in sugarcane producing areas. For now, it is unknown how severe the impact will be, but it will likely further dent the Center-South Brazil sugarcane crop. This season's crop is already under pressure after drought conditions this year. Prior to the latest round of frost, CONAB was estimating that total Brazilian sugar production will fall 5.7% YoY to 38.9mt in 2021/22.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@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 www.ing.com.