The Commodities Feed: The complex comes under pressure

Your daily roundup of commodity news and ING views

Energy

Oil came under further pressure yesterday, with ICE Brent settling almost 1.2% lower on the day. This downward pressure has continued in early morning trading today, with Brent down more than 1% and trading below US$68/bbl at the time of writing. Oil got caught up in the broader market sell-off, with metals and equities also weakening over the day. The spread of the delta variant also continues to cloud the demand outlook for oil. In addition, output data from China earlier in the week, which showed that Chinese refiners processed the least crude in 14 months does little to help sentiment.

The weakness in the oil market in recent days has been led by WTI. Its discount to Brent has widened to almost US$3.20/bbl, which is the widest this spread has been since May. Although oddly, the widening comes despite the fact that we continue to see a tightening in the US oil market. Yesterday's EIA report showed that US crude oil inventories fell by 3.23MMbbls, which was more than the market was expecting. Inventories at Cushing also declined by 980Mbbls, leaving stocks at the WTI delivery hub at 33.6MMbbls - the lowest level since October 2018. It appears that the only modestly bearish data point from yesterday's report was that gasoline inventories increased by 696Mbbls due to a slight decline in implied demand. Given yesterday's price action, the market is clearly more focused on the global demand outlook than EIA weekly numbers.

OPEC+ will also be keeping an eye on demand at the moment. The group is set to meet on 1 September, and whilst their output policy is set until the end of the year, there is always the potential for a change if they feel that this is necessary. As things stand, it is unlikely we see a change. OPEC recently left its demand forecasts unchanged despite the spread of the delta variant, whilst any rollback in the easing of cuts could attract some criticism from the US, who recently asked the group to increase output. However, much will depend on what happens in the market over the next week and a half. One less concern for OPEC+ appears to be Iranian supply. There is still very little in the way of progress in nuclear talks since the new Iranian president took office in early August. The IAEA recently warned that Iran had increased uranium enrichment activity, so a nuclear deal still looks some distance away, and as a result, the lifting of oil sanctions as well.

Metals

The overall risk-off sentiment still grips the metals complex with Covid hospitalisation rates and death numbers rising. LME copper led the complex lower. 3M prices hit an intra-day low of US$9,022/t, the lowest since late June. On the copper mining side, members representing the third union at Codelco's Andina copper mine rejected the company's latest wage offer and went on strike on Tuesday, joining the two main unions that began strike action last Thursday. However, supply risks have subsided in Canada. Teck Resources resumed operations at the Highland Valley Copper mine after a wildfire evacuation order was lifted.

China's weaker metals imports in July may have added to the bearish sentiment. The latest data from China Customs shows that China's imports of unwrought aluminium and aluminium products fell 20% YoY to 312kt in July, although cumulative imports over the first seven months of the year are still up 47% YoY to 1.77mt. For steel, imports fell 60% YoY last month to 1.05mt; however, on a year-to-date basis, imports were still up 15.6% YoY to 8.4mt. On the supply side, the latest National Bureau of Statistics (NBS) data showed that China's refined copper output rose 10.4% YoY to 846kt in July, whilst refined zinc production grew 4.5% YoY to 556kt and lead output increased 7.9% YoY to 575kt last month.

As for bulks, the latest rout in iron ore continued with SGX falling below US$160/t. The recent economic data from China heightened the risk of weaker demand for the rest of the year. There have been growing expectations towards stricter enforcement of production curbs, resulting in deeper cuts in crude steel. This would weigh heavily on iron ore demand. Earlier this week, NBS data showed that China's steel output fell 8.4% YoY (lowest level in fifteen months) to 86.8mt in July.

Agriculture

No. 11 raw sugar prices continued to edge higher yesterday, settling at a fresh recent high of US¢20.17/lb. Sugar prices have increased by more than 10% so far this month, making it one of the best-performing commodities in August. Supply concerns from Brazil due to dry and frosty weather continue to be supportive of prices. In addition, media reports suggest that India may not be considering export subsidies next season (starting October 2021) given stronger sugar prices. India has provided financial support for sugar exports of around 6mt in the current year, and the lack of incentives for next season could weigh on exports.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

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