

The Commodities Feed: The move towards balance

Your daily roundup of commodity news and ING views



Energy

The oil market continues to consolidate, with ICE Brent still trading in the mid-US\$30s. While the market continues to work towards balancing itself, there has been very little in the way of a fresh catalyst recently to drive the market higher. Speculators in recent weeks have also been reluctant to buy too much into the recent rally, with exchange data showing that the ICE Brent managed-money net-position increased by just 2,363 lots over the last reporting week to leave a net long of 158,439 lots as of last Tuesday. In fact, since the market made its lows in late April, speculators have only increased their net longs by 24,320 lots. This limited buying suggests that when fundamentals start to become increasingly constructive over the second half of this year, there will be more room for speculative buying, and so more room for upside to prices in that period.

Meanwhile, the Russian energy ministry expects that the global oil market will start to balance over the June/July period owing to a demand recovery (although clearly supply cuts have also helped to bring forward this transition from surplus to balance). The US continues to play a role in this, with market driven declines. While we have seen US production shut-ins, we continue to see drilling activity fall. The latest data from Baker Hughes shows that the number of active oil rigs fell by 21 over the last week, leaving the count at just 237 - more than a 65% fall since mid-March.

Finally, Covid-19 and the significant demand hit that we have seen has brought up the idea of peak oil consumption once again, and the fact that we may have seen it already. However the head of the IEA does not believe that oil consumption has peaked yet. Low oil prices and an economic recovery should continue to drive oil consumption higher in the years to come, although this is under the assumption of not seeing strong government policy coming through.

Metals

Trade data from China's customs showed that copper concentrate imports into the country increased by 22.9% YoY to 2.03mt in April, with year-to-date imports up 4.9% YoY to total 7.58mt. Smelters and refiners have been ramping up operating rates at an accelerated pace since the start of 2Q20 to make up for the supply losses over the first quarter. This stronger concentrate demand coupled with mine supply disruptions has driven spot treatment charges in China lower, with them currently around US\$56/t, compared to around US\$73/t back in mid-March.

After rising around 20% so far this month, iron ore prices have traded largely flat at around US\$95/t for more than a week. US/China trade tensions and softer steel output from the ex-China market appears to be keeping a cap on further upside to prices for now. Whilst China's steel production recovered strongly over the past two months and was up 0.2% YoY (+7.6% MoM) to total 85mt in April; ex-China steel output continues to lag. Data from the World Steel Association shows that ex-China output dropped 28% YoY (down 23.7% MoM) to 52.1mt in April, the lowest level since July 2009.

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