

The Commodities Feed: The US puts pressure on OPEC+

Your daily roundup of commodity news and ING views



Energy

Oil markets were fairly volatile yesterday. ICE Brent traded down towards US\$69/bbl, but managed to settle above US\$71/bbl. The initial price pressure followed calls from the US administration, which urged OPEC+ to increase oil output further - the current increase of 400Mbbbls/d is seemingly just not enough. In addition to asking OPEC+ to increase output, the administration has also requested that the Federal Trade Commission monitors domestic gasoline prices and addresses any illegal conduct that might be leading to higher prices at the pump. There are clear worries over high gasoline prices - the Biden administration has stated that they want Americans to “have access to affordable and reliable energy, including at the pump.” While there is apparently ongoing dialogue between the US and OPEC+, up until now there has been radio silence from OPEC+. Nevertheless, we imagine that there will be quite a lot of reluctance from the Saudis and the broader group to increase output further, particularly given continued uncertainty over the spread of the delta variant. We will need to see how much pressure the US is willing to put on Saudi Arabia in order to see them further opening the taps. There could be some questioning of the consistency of the Biden administration, which is clamping down on the US oil and gas industry but asking foreign producers to increase output in order to lower oil prices. Pushing for lower fossil fuel prices will also do little to speed up the energy transition.

EIA numbers yesterday were fairly neutral, with US crude oil inventories declining by 448Mbbbls over the last week, which was less than the 816Mbbbls fall reported by the API the previous day. The small draw was driven by a combination of an increase in crude oil exports (flows grew 759Mbbbls/d), and higher refinery activity - crude oil inputs increased by 277Mbbbls/d over the week. On the product side, gasoline inventories fell by 1.4MMbbbls, while distillate fuel oil stocks increased by 1.77MMbbbls.

Finally, there are a couple of data releases scheduled for today that the market will be keeping an eye on. The IEA and OPEC will release their monthly oil market reports later in the day. These will share their outlook for the oil market for the remainder of this year and 2022. Given the tighter mobility restrictions that we have seen in China recently, there is the potential for some downward revisions to near-term demand forecasts.

Metals

The metals complex regained some buoyancy on Wednesday after the US Senate passed a US\$550 billion infrastructure plan, sparking some optimism for US metals demand. However, the bill may face further hurdles in the House, which is scheduled to be on a break until 20 September. Meanwhile, a slightly weaker dollar after US inflation data provided further support to metals. Copper was the exception, with LME prices closing lower yesterday due to a reduced risk premium after mining company, BHP, reached a preliminary wage agreement with the union representing miners at its Escondida mine. The agreement will be put to a vote and must be signed by union leaders by Thursday. In addition, the Caserones copper mine in Chile continues to operate despite a strike by one of its biggest unions which began on Tuesday, as members of other unions continue to work.

As for zinc, LME cancelled warrants jumped to 70kt, the highest since March 2018. In theory, this could lead to large stock outflows from LME sheds. Turning to aluminium, and power shortages in China continue to weigh on smelters' operating rates. As a result, smelters are expected to post another month-on-month decline in August production. Earlier, Shanghai Metals Market (SMM) also highlighted that power restrictions in southern China are set to knock out about 1.63mt of annual capacity, nearly 4% of the nation's total aluminium output.

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