The Commodities Feed: Uncertainty lingers

Your daily roundup of commodity news and ING views

Energy

ICE Brent managed to finish last week on a strong footing, rallying just shy of 2%, taking it back above US$75/bbl. However, this was still not enough to stop Brent from settling lower over the week for the first time since May. There is still plenty of uncertainty over OPEC+ production plans for August. It appears as if the UAE and Saudi Arabia are still struggling to come to an agreement. Therefore prices are likely to remain volatile until we have some clarity around this issue.

Saudi Arabia's government has set a cap on domestic gasoline prices in order to help ease higher living costs. The Kingdom had been trying to cut subsidies, wanting to see domestic prices more aligned with international prices. However, there are clearly concerns even within the Kingdom about inflationary pressures caused by rising oil prices.

The latest positioning data shows that speculators reduced their net long in ICE Brent by 4,796 lots over the last reporting week to leave them with a net long of 303,605 lots as of last Tuesday. NYMEX WTI saw significantly more liquidations over the week, with speculators reducing their net long by 33,386 lots, leaving them with a net long of 373,870 lots. The bulk of this reduction was driven by longs liquidating, rather than fresh shorts. It would appear, given the uncertainty over OPEC+, that speculators have decided to take some risk off the table.

Provisional government data shows that Indian fuel demand increased by 1.5% YoY to 16.3mt in June. LPG and gasoline saw the largest increases, with LPG demand growing by 9.7% YoY to 2.26mt. This is the highest level since June 2020. Gasoline demand stood at 2.41mt in June, up 5.6% YoY. Stronger numbers shouldn't be too much of a surprise, with demand recovering following the last Covid-19 wave we saw over April and May.

Finally, there are a couple of data releases this week that the market will watch. The IEA will release its monthly oil market report on Tuesday, sharing its views on the market outlook for the remainder of this year and 2022. This will then be followed by OPEC's monthly report on Thursday, which will include June production numbers for the group, as well as their market outlook for the rest of the year.

Metals

The base metals complex rallied on Friday in reaction to the surprise announcement by the PBoC of a cut to the reserve ratio requirement (RRR), which is expected to release long-term liquidity of around CNY 1 trillion. The move took many investors by surprise, given that policymakers have been reducing stimulus aid and stepping up their efforts in reigning in commodity prices. The initial reaction from the market appeared to be focused on the liquidity release, which could provide support to manufacturers that have been faced with tighter margins amid higher raw material costs. In the short term, China's RRR cut could provide some support to the market, which has recently been under pressure from the subsiding reflation trade. However, the impact from the latest China RRR cut may prove to be short-lived as the macro market is still faced with growing uncertainties.

Demand indicators are a mixed bag. On one hand, the chip shortage continues to take its toll on car production. Last Friday, China reported its June data, showing that total passenger vehicle sales fell 11.1% yoy (-1.7% mom). On the other hand, electric vehicles sales remained strong, rising by 139% YoY. The strong rise in EVs has led to a shortage in batteries, despite factories across the country running at full capacity, driving the demand for class 1 nickel, along with cobalt and lithium.

As for aluminium, reported regional premiums continue to rise in Europe and the US for aluminium ingots and billets, due to the dislocation of supply and demand from some regional markets, along with supply chain bottlenecks. Ingot inventories continue to drawdown, while billet stocks have started to rise in the China onshore market. The overall run rate at smelters is expected to rise in July, and supply growth may exceed demand growth, putting a stop to the inventory drawdown and weighing on the market in the short-term.

As for lead, the LME market continues to outperform its peer in Shanghai largely due to diverging inventory trends. Lead inventory continues to leave warehouses in Europe, which has caused a spike in the spreads. Meanwhile, ShFE lead stocks have risen to almost a record high, which has weighed on the onshore market.

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