

# The Commodities Feed: US Fed rattles markets

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## Energy

Despite the more hawkish tone taken by the US Fed, ICE Brent still managed to settle higher yesterday, following a constructive EIA report. Prices are, however, coming under some downward pressure in early morning trading today as the market digests the Fed's comments.

EIA data shows that US commercial crude oil inventories declined by 7.36MMbbls over the last week, which was slightly less than the 8.54MMbbls the API reported the previous day. This leaves US crude inventories at 467MMbbls, which is a little more than 5% below the 5-year average for this stage in the year. As for Cushing oil inventories, they fell by a further 2.15MMbbls, leaving inventories at the WTI delivery hub at 43.55MMbbls, the lowest level since March last year. The drawdown in inventories was helped out by strong crude oil exports over the week. These grew by 953Mbbbls/d to 3.88MMbbls/d, while there was a further boost in refinery activity over the week. US refiners increased their utilization rates by 1.3 percentage points to 92.6% - levels last seen in January. Despite the pickup in refinery activity, products stock builds were fairly small, with gasoline inventories growing by just 1.95MMbbls, whilst distillate fuel oil stocks in fact fell by a little over 1MMbbls. This was driven by stronger implied demand, with total product supplied growing by

2.86MMbbls/d.

The latest industrial output data from China yesterday showed that domestic crude oil production was unchanged MoM to average 4.02MMbbls/d in May, whilst refiners processed a little over 14.3MMbbls/d, up 1% MoM, and around 5% higher YoY. Given the stronger refinery activity, along with fairly weak imports, our numbers show that China crude oil inventories declined by around 600Mbbbls/d in May, after declining by around 300Mbbbls/d in April. This suggests that some refiners are preferring to draw down inventories that were built over the last year, rather than importing at these higher prices.

Finally, the Saudi energy minister has warned that the oil market is “not out of the woods yet”, and that the cautious approach taken by OPEC+ is paying off. OPEC+ will meet on 1 July to discuss production policy for August, and given the strength that we have seen in the market, there will be growing pressure on the group to increase output in the months ahead.

## Metals

Reports of China looking to release metal stocks from the SRB have been circulating for a while now, and as a result, this was largely priced in before yesterday's official confirmation. The volumes of copper, aluminium and zinc that will be released are still not yet known, however, or the exact timings. Markets also appeared to quickly get over reports that China has asked state-owned enterprises to limit their exposure to overseas commodity futures, as well as report the futures positions they hold. As a result, most base metals edged higher during Wednesday's London session, ahead of the FOMC meeting. However, LME metal markets have opened weaker this morning, following the more hawkish tone from the US Fed, with the Fed bringing forward its rate hike forecast, expecting 2 hikes by the end of 2023. Unsurprisingly the news led to a spike higher in yields, which also saw gold selling off, falling back towards US\$1,800/oz,

The latest industrial output data from China shows that Chinese primary aluminium output rose 11.3% YoY to 3.32mt in May; however, output was down marginally compared to 3.34mt a month earlier. For the first five months of the year, output increased 10% YoY to total 16.34mt. Crude steel output rose 6.6% YoY and 1.63% MoM to reach a record 99.45mt in May, and this takes cumulative production over the first five months of the year to 473mt, up 14% YoY.

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