

The Commodities Feed: US oil production growth cut

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Energy

Oil managed to recoup some of the losses seen earlier in the week, with ICE Brent settling just short of 1% higher yesterday. A bit of weakness in the USD would have helped, along with the IMF lifting its global GDP forecast for 2021.

The key uncertainty on the supply side for the market remains Iran, and how soon we could see the US returning to the nuclear deal and potentially lifting sanctions. The first round of talks took place yesterday, with the Iranians saying they were “constructive”, while the Russians said they were “successful”. However, reaching a deal still appears as though it will be tough and take quite some time, with Iran insisting that the US removes all sanctions before it is willing to revive the deal. Talks are set to resume on Friday.

The EIA yesterday released its monthly Short Term Energy Outlook, where its US oil production forecasts for both 2021 and 2022 were cut, despite prices remaining fairly well supported, along with a consistent increase in drilling activity. The EIA now forecasts that US oil output will average 11.04MMbbls/d this year, down 100MMbbls/d from its previous forecast. 2022 has seen a more

aggressive reduction, with output expected to average 11.86MMbbls/d over the year, down 160MMbbls/d from last month's forecast. The number of active oil rigs has grown considerably since bottoming out in August last year, but the rig count is still 50% below where it was in March last year. US producers also appear to be sticking to their word about showing restraint despite the broader strength seen in the market this year.

Finally, API numbers released overnight showed that US crude oil inventories fell by 2.62MMbbls over the last week, not too far off from market expectations for a drawdown in the region of 2MMbbls. Although, refined products saw some fairly large builds, with gasoline and distillate fuel oil stocks growing by 4.55MMbbls and 2.81MMbbls respectively. If EIA number released later today are similar for gasoline, it would be the largest increase since April last year.

Metals

A retreat in the USD, as well as US Treasury yields, saw the metals complex rally yesterday. Strong economic data releases over the last couple of days, along with the IMF's latest global growth forecast revision have proved constructive for base metals. LME copper pushed back above US\$9,000/t, after Chile announced the closure of its borders due to Covid-19, raising concerns once again over mine supply risks. Although the government has said that the new measures will not affect mining operations and shipments.

Turning to steel, Chinese government restrictions continue to be supportive for prices, with rebar futures trading to near-record highs. The local government of Tangshan in its latest move has asked domestic steel mills to conduct checks on production and processes so that environmental issues can be addressed. Steel mills in the region would need to make specific data related to production parameters and pollution available on a government platform by month-end. Mills who are unable to do so will encounter production halts or fines.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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