The Commodities Feed: USD weakness supports the complex

Your daily roundup of commodity news and ING views

Energy

While the flat price for oil remains largely rangebound, ICE Brent time spreads have come under a bit more pressure, with the Oct/Nov spread trading in a contango of US$0.44/bbl, compared to a contango of as little as US$0.07/bbl in early July. This suggests that the tightening we were seeing in the market has eased somewhat, with the demand outlook more uncertain given the resurgence of Covid-19 cases in some regions, whilst the support from strong Chinese crude oil imports in previous months appears to be waning. On the supply side, the market is readying itself for a surge in OPEC+ supply, with the group set to start easing cuts from 1 August, although a number of OPEC+ members have said that this additional supply would be absorbed in domestic markets, rather than leading to increased exports. The more recent weakness in the time spreads does suggest that there could be some downside to the flat price, however, for the moment a weaker USD seems to be offering support to oil, as well as the rest of the commodities complex.

The API will release its weekly US inventory numbers later today, and market expectations are that US crude oil inventories grew by a little under 1MMbbls over the last week. On the products side, distillate fuel oil stocks are expected to have increased by 1MMbbls, whilst gasoline inventories are expected to have declined by 2MMbbls over the last week.

Metals

The metals complex remained buoyant yesterday, with precious metals taking centre stage. Further weakness in the USD index has been fuelling the upward momentum, which saw spot gold trading to new record levels yesterday, surpassing the previous high of US$1,921/oz made in 2011. Meanwhile in early morning trading today, the strength in gold has continued, with the market once again trading to fresh highs. All attention in the coming days will be on the FOMC meeting, with the US Fed likely to signal that it is prepared to do more, to keep the recovery on track. While macro developments continue to dictate price action for the metals complex, fundamental developments, even those on the bearish side, have been largely ignored. For copper, better industrial profits from China, coupled with declining inventories have outweighed the news that Antofagasta's Zaldivar mine has avoided strike action.

The LME lead tom-next spread surged to a backwardation of US$11 yesterday, the highest since June 2019. Although on-warrant inventories have surged from 63kt a week ago to 118kt as of yesterday. LME lead pays no attention to ballooning inventories, instead, it appears to be following the strong momentum seen in the SHFE market. Finally, in aluminium, major producer Rusal, reported a decline of 1.4% QoQ in its aluminium production, leaving it at 927kt in 2Q20, while cumulative output for the first six months of the year remained unchanged to total 1.87mt.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

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