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COMMODITIES DAILY

The Commodities Feed: USD weighs on the complex

Your daily roundup of commodities news and ING views



Energy

Oil prices have come under a bit of pressure in early morning trading in Asia today. NYMEX WTI is trading down around 1% at the time of writing. A rise in Covid cases in Shanghai will not be helping sentiment, particularly given that China continues to pursue its zero-Covid policy, which creates a fair amount of demand risk for the market. In addition to demand worries, concerns over Kazakhstan's oil supply have eased after a Russian court said that oil flows through the CPC terminal on the Russian Black Sea coast can continue. A lower court had previously said oil flows should be suspended for 30 days due to violations of rules around oil spills. Furthermore, continued strength in the USD will be weighing on oil, along with the broader commodities complex.

It is set to be a fairly busy week for the oil market. Today will see OPEC release its monthly oil market report, while the EIA will release its Short Term Energy Outlook. Given the deteriorating macro picture, it will be interesting to see what revisions are made to oil demand forecasts for this year and next. These releases will be followed by the IEA's monthly market report on Wednesday as well as the first batch of Chinese trade data for June. And then on Friday, we will get Chinese output data for June, which will include refinery output for the month. On top of

all these releases, President Biden will be visiting the Middle East later this week, which means there is the potential for plenty of noise around the US putting further pressure on OPEC to increase oil production more aggressively.

European natural gas prices came under pressure yesterday, falling by more than 6%. The sell-off was driven by reports that Canada would return a turbine for the Nord Stream pipeline to Gazprom. Gazprom had reduced flows via the Nord Stream pipeline by around 60% from normal levels, citing delays in the return of a turbine and maintenance issues at a compressor station. However, Nord Stream flows should have come to a complete stop yesterday and will be offline until 21 July due to scheduled annual summer maintenance.

Metals

The sell-off in industrial metals resumed on Monday, as a resurgence of Covid cases in China along with a strong dollar (reaching a 20-year high) weighed on risk assets and overshadowed the latest stimulus hopes from China.

The latest survey from the Shanghai Metals Market (SMM) shows that refined copper production in China rose 4.6% MoM and 3.3% YoY to 857kt in June, as smelters in the Shandong region restarted operations. The group also expects refined production to grow further over the coming months, as smelters complete maintenance or launch new capacity. Amongst other metals, domestic aluminium production rose 4.5% YoY to 3.4mt. The majority of the rise came from the resumption of production and the commencement of new capacity in Guangxi, Gansu and Yunnan regions. Cumulative, output rose marginally to 19.5mt in the first six months of the year. Meanwhile, China's refined zinc output fell 5.2% MoM to 488kt (primarily due to smelter maintenance), while refined lead production rose 2% MoM to 254kt in June.

There are reports that the Indian government is looking to scrap a 15% export levy on some steel products. Previously, the Indian government hiked export tariffs on iron ore and several steel products on 22 May.

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