

# The Commodities Feed: WTI breaks above \$70

Your daily roundup of commodity news and ING views



## Energy

Oil prices rallied yesterday, with ICE Brent trading back above US\$72/bbl, whilst NYMEX WTI broke the US\$70/bbl barrier for the first time since October 2018. API numbers overnight showed that US crude oil inventories declined by 2.11MMbbls over the last week, which has provided a further boost to oil this morning. Demand optimism continues to support the complex, with global Covid-19 cases continuing to trend lower after peaking in late April. In addition, the US eased its Covid-19 travel warnings for a number of countries, and while this is unlikely to lead to an immediate rebound in international travel, it is clearly a step in the right direction. We believe that the demand outlook will remain supportive for prices as we move through the year. We are of the view that significant further upside is capped by the more than 6MMbbls/d of spare capacity that OPEC+ is holding from the market. There will likely be more pressure on the group in the coming months to bring more of this capacity back to the market, particularly if we remain in the current price environment.

What has been evident in recent weeks has been the relative strength in WTI, with the WTI/Brent spread seeing its discount narrow to just US\$2.30/bbl, the narrowest it has been since November last year. This does reflect a relatively more constructive US market, where crude inventories have

been trending lower since March, and refinery utilization rates are at their highest levels since February 2020. A further narrowing in the spread could see crude oil exports from the US come under pressure.

Sticking with the US, and the EIA yesterday released its latest Short Term Energy Outlook, where some slight revisions were made to oil output forecasts for 2021 and 2022. The EIA expects that US oil output will fall less than previously expected in 2021, with it forecast to fall by 251Mbbbls/d YoY to average 11.07MMbbbls/d, compared to a previous forecast of 11.01MMbbbl/d. As for 2022, growth expectations have been slightly lowered, with output next year forecast to grow by 722Mbbbls/d to average 11.79MMbbbls/d, lower than the 11.84MMbbbls/d previously forecast.

## Metals

With no strong catalyst, base metals traded in relatively tight ranges for most of yesterday's session in London before settling higher ahead of the LME evening close. There has been focus on the Peruvian election results, which may add to the risk premium for long term copper mine supply if candidate Castillo wins. This would only add to the long term narrative that mine investments may fall short of the expected demand surge.

According to the latest production data from SMM, China copper cathode production fell 3.1% MoM in May to 850kt, chiefly due to maintenance work at a number of smelters. The group expects production to slip by another 2.2% in June. Refined zinc production also declined by 2% MoM to stand at 494.6kt last month, primarily due to low operating rates among smelters in Yunnan as a result of power issues. Despite this, YTD production still grew by 4.5% YoY to total 2.5mt.

In the precious metals space, this week's main risk events are in the macro market as investors await US consumer prices data to be released on Thursday. Given the recent nervousness about US inflation, a potential higher reading could impact US Treasury yields, which could ripple through to the rest of markets. Some investors seem to have taken profits ahead of the event, as spot gold slipped despite treasury yields falling on Tuesday.

## Agriculture

US grain prices were supported yesterday, with the USDA's latest crop progress report showing a worsening in the crop condition for both US corn and soybeans, as a result of hot and dry weather conditions. In addition, drought conditions in Brazil continue to be a concern for the Brazilian safrinha corn crop, with expectations that we will see further downgrades. The market should get a better idea on this later in the week, with the USDA releasing its monthly WASDE report on Thursday, whilst CONAB will also give an update on Brazilian crop estimates on the same day.

Finally, after a surge higher in China's PPI in May, which increased by 9% YoY over the month, the Chinese government has said that it will control domestic corn, wheat and pork prices. This follows the government also recently attempting to cool the current strength in metals prices.

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