

The Commodities Feed: Oil remains in limbo

Oil prices remain in limbo as the market waits to see how Israel responds to Iran's recent attack



Energy - oil remains in limbo

Oil prices settled marginally lower yesterday, although Brent has managed to stay just above US\$90/bbl. The lack of direction in the market reflects the significant uncertainty about Israel's possible response to Iran's attack over the weekend. US Treasury Secretary, Janet Yellen, said that the US will implement additional sanctions against Iran in response to its attack. However, for oil, sanctions are already in place, the issue is that they have not been strictly enforced for the last couple of years. And the big question is whether they will be enforced more rigorously now. Will the Biden administration want to risk tightening up the oil market and pushing prices higher as we move closer towards US elections later this year?

API numbers overnight were a mixed bag. Crude oil inventories are reported to have increased by 4.09m barrels over the week, which was more than the roughly 1.65m barrels build the market was expecting. Distillate fuel oil stocks also fell by less than expected, declining just 427k barrels over the week. However, gasoline stock draws were more constructive and inventories fell 2.51m barrels compared to expectations for a decline of around 1m barrels. Lower-than-average stocks going into the summer driving season continue to provide support to gasoline cracks. The prompt

RBOB crack now trades above US\$32/bbl, up from around US\$15/bbl in early January.

While the gasoline market is tightening, the middle distillate market is easing. The ICE gasoil crack is on the verge of breaking below US\$20/bbl and is trading at its lowest level since July last year. Meanwhile, the prompt ICE gasoil timespread briefly ventured into contango territory, suggesting a more comfortably supplied prompt market. Inventory data tends to support this view. Numbers from Insights Global show that gasoil inventories in the ARA region are back at their 5-year average. However, while the supply/demand picture is looking a lot more comfortable for middle distillates, there are still key risks overshadowing the market, particularly the potential for disruption to Russian middle distillate supplies, given the Ukrainian drone attacks we have seen on Russian oil refining capacity in recent months.

European natural gas prices strengthened further yesterday. TTF rallied by a little more than 6.4%, which took front-month futures back above EUR33/MWh- the highest level since early January. Norwegian gas flows to Europe remain depressed following some unplanned outages, flows are a little over 300mcm/d compared to more than 340mcm/day late last week. The geopolitical environment will also support European gas prices, particularly given the EU's larger dependence on LNG since the Russia-Ukraine war. However, fundamentals remain bearish with storage more than 62% full, well above the 5-year average of 43% full for this time of year.

Metals – China's steel output falls

Steel output in China contracted in March amid ongoing weakness in the country's property sector a key driver for demand. Crude steel production fell 7.8% YoY to 88.3mt last month against a backdrop of weak profit margins and lower prices, data from the National Bureau of Statistics (NBS) show. Cumulatively, output fell 1.9% YoY to 256.6mt in the first quarter of the year. Among other metals, Chinese primary aluminium output rose 7.4% YoY to 3.6mt in March while year-to-date output rose 6.8% YoY to 10.7mt in Jan'24-Mar'24 following the restart of idled capacity in Yunnan.

Data from the China Iron and Steel Association (CISA) shows that steel inventories at major Chinese steel mills fell for a second consecutive month to 18.3mt in early April, down 0.9% compared to late March. Crude steel production at major mills also declined marginally by 0.5% from late March to 2.1m/d in early April.

In aluminium, LME data shows that cancelled warrants for the metal jumped 75,600 tonnes, after eight consecutive weeks of declines, to 272,700 tonnes as of yesterday. This was the biggest daily addition since May 2023, as the market reacted to new restrictions on delivering Russian metal to the exchange. Aluminium on-warrant inventories fell by 79,850 tonnes to 244,650 tonnes for a third consecutive session, while exchange inventories fell by 4,250 tonnes to 517,350 tonnes. The cash/3m spread for aluminium has also been fairly volatile, after trading to a backwardation of US\$13/t on Monday, only to return to a contango of around \$12/t yesterday.

The latest COTR report released yesterday shows that investors boosted net bullish positions for aluminium by 3,817 lots to 135,986 lots for the week ending 12 April, the largest net long held since mid-December 2020. In contrast, money managers decreased their net long in copper by 2,823 lots to 83,948 lots as of last Friday.

Agriculture – Indian sugar output falls

The latest data from the Indian Sugar and Bio-energy Manufacturers Association (ISMA) show that

sugar production in India fell marginally to 31.1mt (excluding sugar diverted for ethanol production) so far this season through 15 April. Cumulative output stood at 31.2mt at the same stage last year. Mills are ending operations at a faster pace than last year with ISMA reporting that just 84 mills were crushing cane by mid-April compared to 132 mills at the same time last year. For 2023/24, the government ruled out the possibility of allowing sugar exports.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.