

The Commodities Feed: Oil surges on escalation fears

Oil prices have surged early morning Friday with unconfirmed reports of explosions in the Middle East. Meanwhile, cocoa prices hit new record highs after robust grinding data



Source: Shutterstock

Energy – Middle distillate concerns

Oil prices have surged this morning with Brent more than 2% higher at the time of writing, following unconfirmed reports of explosions in Iran, Syria and Iraq. If these reports turn out to be true, fears over further escalation will only grow, as well as concerns that we are potentially moving closer towards a situation where oil supply risks lead to actual supply disruptions.

[As we mentioned earlier this week](#), middle distillate cracks have come under significant pressure more recently which will be raising demand concerns. The prompt ICE gasoil crack is now trading close to US\$18/bbl – the lowest levels since July last year. In addition to weaker cracks, the prompt timespread has also flipped from backwardation into contango, suggesting ample supply in the prompt market. The spread has weakened from a backwardation of more than US\$9/bbl earlier this month to a contango of US\$2.50/bbl currently.

Meanwhile, the latest trade data from China shows that diesel exports in March totalled 1.42mt, up

from 630kt the previous month, but still down 1.7% YoY.

While middle distillate fundamentals are clearly weaker, there are still risks surrounding the market, given Ukrainian drone attacks on Russian refining capacity.

Inventory data from Insights Global show that gasoil inventories in the ARA region fell by 25kt over the last week to 2.12mt, but still leaves stocks largely around the 5-year average. In Singapore, middle distillate stocks fell by 1.07m barrels to 10.14m barrels, which again is still broadly in line with the 5-year average.

US natural gas prices strengthened yesterday with front month Henry Hub futures settling more than 2.6% higher on the day. This is despite storage data from the EIA yesterday coming in largely in line with consensus. US natural gas storage increased by 50Bcf last week, compared to expectations for a 51Bcf increase, but below the 5-year average of a 61Bcf increase. Total US natural gas storage remains very comfortable with it standing at 2,333Bcf, up 22% YoY and more than 36% above the 5-year average. While high inventories have weighed on prices for much of the year, expectations for largely flat domestic supply growth and the ramping up of LNG export capacity later this year suggests the US gas balance should tighten later this year and into 2025.

Metals – China metals output near record highs

Chinese refined copper and zinc production reached near-record levels in March despite persistent weakness in domestic smelters' profit margins, data from the National Bureau of Statistics showed. Refined copper output rose 7.9% YoY to 1.15mt last month, while daily production averaged 37kt/d – near the all-time high of 38kt/d reported in November. Cumulatively, copper output rose 10% YoY in the first quarter of the year. As for zinc, monthly output rose 3.5% YoY to 651kt or 21kt/d in March, close to the record of 21.9kt/d in November. Spot copper TCs in China fell to record lows of \$0.10/t last week, according to data from Fastmarkets,

Cancelled warrants for most base metals on the LME jumped sharply yesterday indicating market nervousness about the new Russian metal sanctions. Cancelled warrants for copper rose 14,350 tonnes to 32,525 tonnes as of yesterday, the biggest daily move since 18 October. Meanwhile, requests to withdraw aluminium rose 16,000 tonnes to 294,975 tonnes, while cancelled warrants for lead increased 19,100 tonnes to 126,625 tonnes as of yesterday.

Agriculture – Cocoa grinding data remains firm

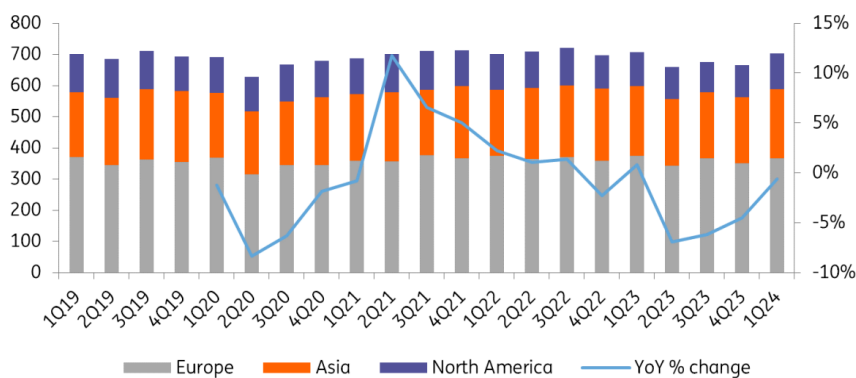
Cocoa prices saw significant strength once again yesterday on the back of robust grinding data. London cocoa rallied by more than 9% on the day, and traded to a record high of GBP9,809/t. The high price environment we have seen in cocoa for sometime was expected to weigh on demand. However, aggregated 1Q24 grinding data for Europe, North America and Asia was down just 0.6% YoY, and actually up 5.5% QoQ. The stronger data was driven by North America with grindings up 3.7% MoM, while Asian and European grinding was down 0.2% and 2.2% YoY respectively. The robustness in the data suggests that cocoa prices will need to stay higher for longer to ensure adequate demand destruction, given the large deficit the global market faces this season.

In its recent monthly update, the International Grain Council decreased its 2024/25 global corn output forecast from 1,233mt to 1,226mt largely driven by the output losses expected from the US, while consumption projections were lowered to 1,223mt from previous estimates of 1,230mt. Meanwhile, global corn-ending stocks are expected to fall to 291mt from 297mt. Similarly, the

council cut its global wheat ending stock estimates to 259mt from its March projection of 262mt. For soybeans, the council left its 2024/25 global ending stock estimates unchanged at 75mt.

The latest trade numbers from China customs show that corn imports declined by 22% YoY to 1.7mt in March. The decline in imports could be largely attributed to estimates for a record 2024/25 domestic crop, due to improved yields and increased plantings. Meanwhile, cumulative imports are still up 5.1% YoY to total 7.9mt over the first three months of the year. Among other grains, monthly wheat imports surged 34.2% YoY to 1.8mt, although cumulative imports are still down 1.4% YoY to total 4.3mt.

Cocoa grinding remains robust despite surging prices (k tonnes)



Source: ECA, CAA, NCA, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.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.