

The Commodities Feed: Refined product strength

Crude oil prices remain rangebound. However, refinery margins continue to strengthen driven by tightness in middle distillates. Gasoline has also played a role in this strength, with cracks rising on the back of falling US inventories



Source: Shutterstock

Energy - US product draws

EIA weekly inventory numbers show that US commercial crude oil inventories increased by 5.52m barrels over the last week, which was above market expectations. This build was driven by a rebound in crude oil imports, which increased by 1.3m b/d WoW, while exports also fell by 298k b/d WoW. EIA numbers also showed a 300k b/d increase in crude production. The refined product numbers were more constructive. Gasoline inventories fell by 3.15m barrels over the week, while distillate stocks fell by 3.22m barrels. Looking at the refinery utilisation rates in the Midwest, it does not appear as though the data has taken into account the outage of BP's Whiting refinery, given that utilisation rates in the region actually increased by 4.1pp over the week to 95.1%. The outage is likely to be reflected in next week's numbers, which suggests we could see some further tightening in product stocks.

The fall in US gasoline stocks has provided further upside momentum to gasoline cracks with the prompt RBOB crack breaking above US\$20/bbl, a level not seen since September last year. The tightening in middle distillates also continues to push the prompt heating oil crack higher. And it is trading at more than US\$44/bbl, up from around US\$35/bbl at the start of the year. The tightness in middle distillates is not isolated to the US. The European gasoil crack is trading at around US\$31/bbl. The European middle distillate market will be feeling a bit more tightness due to the ongoing disruptions in the Red Sea.

The strength in refinery margins should provide some support to crude oil, by driving stronger crude demand as refineries look to increase run rates and take advantage of stronger margins.

Metals – China continues to boost gold reserves

The latest data from the People's Bank of China (PBoC) shows that China expanded its gold reserves for a fifteenth straight month in January. Gold reserves grew by about 10 tonnes to a total of 2,245.4 tonnes last month. Previously, the World Gold Council also reported that central bank gold purchases were once again led by China. Chinese reserves grew by 225 tonnes last year.

Numbers from SMM show that Chinese refined copper production fell 3% MoM to 970kt in January, following scheduled smelter maintenance and a tight supply of blister. Tightness in the concentrate market has also resulted in spot treatment charges falling significantly, which could be forcing some smelters to reduce operating rates. Tightness in the concentrate market is likely to eventually feed through to tightness in the refined copper market.

Agriculture – WASDE release

The USDA is scheduled to release its monthly WASDE report later today. The market expects that the agency could increase its US soybean ending stocks by 5m bushels to 285m bushels, while trimming its corn ending stock estimates by 13m bushels to 2,149m bushels. Turning to global supply, the agency is expected to revise its Argentine corn and soybean output estimates slightly higher, while Brazilian corn and soybean production estimates are expected to be trimmed to 124.8mt (-2.2mt) and 153.7mt (-3.3mt) respectively. Global ending stocks for corn are expected to decline from 325.2mt estimated in January to 324.6mt, while for soybeans, ending stock estimates are expected to fall to 113mt from 114.6mt.

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.