

The Commodities Feed: A sea of red

Your daily roundup of commodity news and ING views



Energy

Oil prices came under significant pressure yesterday, unable to escape the broader risk-off move we saw across markets. ICE Brent settled almost 3% lower on the day, trading down to levels last seen in late April. Prompt timespreads also came under pressure, with the prompt Brent spread also trading down to levels seen in late April. Although following the big move in the flat price yesterday, we are seeing a slight relief rally in early morning trading today. What would have given a further knock to sentiment was the fact that the US appears to be moving closer towards rejoining the Iranian nuclear deal, with an EU official saying that the two nations are not far from reaching an agreement. This follows comments from Russian officials earlier in the week, which also suggested that progress had been made. However, it does seem as though we will have to wait until next week at the earliest, as that is when negotiations in Vienna will resume.

The latest weekly EIA data yesterday showed that US crude oil inventories increased by 1.32MMbbls over the last week, while gasoline and distillate fuel oil inventories declined by 1.96MMbbls and 2.32MMbbls respectively. This data covers the period that the Colonial pipeline was shut, and despite the outage, refinery utilization on the US Gulf Coast fell by only a marginal 0.3 percentage points over the week. As one would expect with the outage, there were large product builds on the US Gulf Coast, with gasoline inventories in the region increasing by 5.73MMbbls, whilst distillate fuel oil stocks grew by 1.22MMbbls. On the US East Coast, which faced

shortages due to the outage, gasoline and distillate fuel oil inventories fell by 4.58MMbbls and 2.9MMbbls respectively. In order to help meet shortfalls on the East Coast, it was no surprise that the data also showed an increase in gasoline and distillate fuel oil imports into the region, with inflows from overseas increasing by 188Mbbls/d and 135Mbbls/d respectively.

Finally, looking to India, and the market is getting a better idea of the impact the latest wave of Covid-19 has had on domestic oil demand. The largest refiner in the country, Indian Oil said that gasoline and diesel sales have fallen by around 15-20% due to the latest wave. As a result, the refiner has reduced operating rates at its plants from an average of a little more than 96% in April to around 84% at the moment. A resurgence in Covid-19 cases across parts of Asia is doing little to support the market in the near term.

Metals

The industrial metals complex was sold off along with other risk assets yesterday. LME copper briefly tumbled to US\$9,977.5/t before closing at US\$10,002/t yesterday, while gold briefly rose above US\$1,880/oz, but even the yellow metal failed to hold onto these gains through the day. Yesterday's selloff also coincided with comments from the Chinese government officials who said that they would improve the supply and demand management of commodities in order to attempt cooling commodity prices. Rising inflation concerns may also prompt bets among some investors on earlier tightening, although suggestions of imminent tightening have been rebuffed.

Higher commodity prices have seen increasing pushback from downstream sectors, which could have a negative impact on the market. There have been growing signs that the physical market is struggling to catch up with the parabolic run in the derivatives market. The LME copper cash-3M spread has shifted into a steep contango, despite copper exchange inventories continuing to decline, suggesting that buyers are holding off. Meanwhile, stocks have begun to rise in the Shanghai market, going against the traditional destocking trend that we usually see at this time of the year.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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