

# 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@ing.com](mailto:Warren.Patterson@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](http://www.ing.com).