

The Commodities Feed: API reports US stock draw

Your daily roundup of commodity news and ING views



Source: Shutterstock

Energy

Having had a strong start to the year, the rally in oil appears to have run out of steam, with Brent trading in a rather rangebound manner in recent weeks. Market participants are now in 'wait and see' mode, wanting to see how lockdowns evolve in the coming weeks and months, and how successful countries are in rolling out Covid-19 vaccines. The one factor which has made the market a bit nervous about demand is the localised lockdowns that we are seeing in parts of China. The Chinese government also continues to discourage people from traveling over the upcoming Chinese New Year holiday, and the transport ministry is expecting passenger trips during the holiday period to be down 40% from 2019 levels.

While the flat price has been rather rangebound, time spreads continue to strengthen, and the front-month ICE Brent spread has traded to a backwardation of US\$0.27/bbl, the strongest level we have seen in the front-month spread since February last year. The ICE Brent forward curve is in full backwardation, and this would be welcome news to OPEC+, and shows their success in tightening up the oil market following the demand hit from Covid-19.

Overnight, the API released its latest US inventory numbers, which showed that US crude oil inventories declined by 5.27MMbbls over the week, while Cushing stocks fell by 3.48MMbbls. The crude oil drawdown has offered some support to the market in early trading this morning, with the market expecting a build of around 1.5MMbbls in the lead up to the release. On the product side, the numbers were less constructive, with the API reporting that gasoline and distillate fuel oil inventories increased by 3.06MMbbls and 1.4MMbbls respectively.

Metals

Risk sentiment has notably turned more cautious with still a lot of uncertainty around Covid-19 and the rollout of vaccines. There are also signals from China, suggesting that the seasonal weaker demand pattern has started to kick in, while comments from the PBoC warning on an asset bubble certainly have not helped sentiment. Gold remains coiled, along with the rest of the precious metals complex ahead of the Fed meeting, with investors awaiting clearer signals on policy tone.

Turning to base metals, and LME zinc saw a large inflow of a little more than 45kt of metal into LME warehouses, which saw the market falling by more than 1.8% over the day. This increase in LME stock also comes amid stock building in the Chinese market, which is largely expected ahead of Chinese New Year. Due to the Covid-19 outbreak in Hebei province, restrictions to logistics are also expected to hurt demand, with the region accounting for roughly 10% of total galvanizing capacity in China. In the short term, pressure on zinc has opened the door for lead to play catch up, and for the latter, stocks have been falling in the China market over the last week, which has boosted market sentiment.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.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.