

The Commodities Feed: Bearish EIA numbers

Your daily roundup of commodity news and ING views



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Energy

Oil came under further pressure yesterday, following a bearish EIA report. EIA numbers showed a surprise build of 822Mbbbls in US crude oil inventories, somewhat different to the 3MMbbbls drawdown the market was expecting according to a Bloomberg survey. What made the release even more bearish was the fact that we also saw large stock builds for gasoline and distillate fuel oil, with these increasing by 5.4MMbbbls and 4.1MMbbbls respectively. The surprise crude build was driven by stronger imports, which increased by 898Mbbbls/d over the week. Refinery utilization also slipped by 1.3 percentage points over the week, which saw crude oil inputs fall by a little over 200Mbbbls/d. It does seem that the weakness we are seeing in refinery margins is giving little incentive to refiners to increase run rates, at a time when we usually see a seasonal move higher.

Product cracks also came under pressure as a result of the large stock builds, and what did not help was the fact that demand for refined products took a hit last week, falling by 2.73MMbbbls/d over the week to 18.36MMbbbls/d - the lowest demand number since December 2016. The bulk of this decline reflects poorer NGL demand. Gasoline demand also declined further over the week, falling below 9MMbbbls/d and to levels last seen in February.

Moving on, OPEC released its monthly oil market report yesterday. They reported secondary sources estimated production for the group at 29.55MMbbls/d over November, 193Mbbls/d lower MoM. Saudi Arabia was the key driver behind this decline, with output from the Kingdom falling a little over 150Mbbls/d. Meanwhile according to OPEC numbers the call on OPEC oil production over Q1 is 29.13MMbbls/d over the first quarter of year. This declines to 28.87MMbbls/d in 2Q20, suggesting that OPEC will need to take action to keep the market in balance over this period. The outlook does start looking more positive in the latter part of the year, with the call on OPEC increasing to 30.5MMbbls/d in 3Q20, above current OPEC production levels.

Metals

It was another fairly strong day for the metals complex, with nickel leading the march higher and further speculative buying from China. LME nickel rallied to an intra-day high of US\$13,870/t, and closed 3.3% higher on the day. This strength has defied a surge in stocks. In the short term the market is likely to remain speculatively driven, which means volatility is likely to remain for now.

Aluminum continues to trade in a tight range - fundamentals are fairly weak, whilst broader sentiment for the metals complex remains constructive for the time being at least. A number of factors have weighed on aluminum, including inflows into LME sheds where aluminum stocks increased by another 26.7kt yesterday, taking total stocks to more than a 1-year high of 1.33mt. Chinese automobile sales have not been great, as we mentioned yesterday, and this is clearly not overly constructive for demand. Lastly, alumina supplies have been improving in the physical market, which continues to keep a key input cost weak.

Turning to ferrous metals - iron ore extended gains yesterday on the back of a stronger steel market in China. SGX iron ore has rallied 10% so far this month, with prices back above US\$90/t - levels last seen in late September. Steel margins in China have strengthened to CNY330/t, up from an average of CNY184/t in November, and quite an improvement from October, where they were negative. Beijing's pledge to increase infrastructure investment, the seasonal end of year pick-up in construction completions, and optimism over trade talks have been supportive for steel prices.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	63.72	-0.96	18.44	Spot Gold (US\$/oz)	1,474.9	0.72	15.00
NYMEX WTI (US\$/bbl)	58.76	-0.81	29.40	Spot Silver (US\$/oz)	16.9	1.19	8.83
ICE Gasoil (US\$/t)	579	-1.91	13.36	LME Copper (US\$/t)	6,156	0.92	3.20
NYMEX HO (Usc/g)	193	-1.87	14.75	LME Aluminium (US\$/t)	1,760	0.28	-4.66
Eurobob (US\$/t)	565	-0.69	17.72	LME Zinc (US\$/t)	2,222	-0.25	-9.93
NYMEX RBOB (Usc/g)	163	-1.60	22.85	LME Nickel (US\$/t)	13,850	3.32	29.56
NYMEX NG (US\$/mmbtu)	2.24	-0.93	-23.71				
TTF Natural Gas (EUR/MWh)	14.05	-3.34	-36.10	CBOT Corn (Usc/bu)	358	-1.51	-4.60
				CBOT Wheat (Usc/bu)	531	-0.75	5.46
API2 Coal (US\$/t)	55	0.37	-35.12	CBOT Soybeans (Usc/bu)	894	-0.86	1.25
Newcastle Coal (US\$/t)	67	-0.07	-34.22	ICE No.11 Sugar (Usc/lb)	13.42	-0.30	11.55
SGX TSI Coking Coal (US\$/t)	137	-1.75	-35.42	ICE Arabica (Usc/lb)	134	1.36	31.42
SGX Iron Ore 62% (US\$/t)	92.80	1.63	33.58	ICE London Cocoa (GBP/t)	1,864	-5.57	5.55

Source: Bloomberg, ING Research

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