

The Commodities Feed: Brent spread strength

Your daily roundup of commodity news and ING views



Source: iStock

Energy

US stock build: Having traded to a high of US\$63.19/bbl yesterday on the back of growing optimism around a trade deal between China and the US, ICE Brent has come under renewed pressure this morning following the API report late yesterday that US crude oil inventories increased by 4.26MMbbls, which was quite a bit more than the 2MMbbls build the market was expecting. The API also reported that inventories at the WTI delivery hub, Cushing, increased by 1.25MMbbls. Draws of 4.17MMbbls and 1.65MMbbls were reported in gasoline and distillate fuel oil, respectively- both larger than what the market was expecting. Today will see the EIA release its more widely followed weekly report, and if we see similar numbers to the API, this should keep pressure on crude, while offering support to product cracks.

Sticking with the North American market, and the West Canada Select (WCS) differential continues to weaken, with WCS now trading at a US\$22.20/bbl discount to WTI. These are the weakest differentials seen since December, and reflect the shutting of the Keystone pipeline, following the discovery of a leak.

Time spread strength: We continue to see strength in ICE Brent time spreads, with the Jan/Feb spread trading to a backwardation of US\$0.82/bbl, up from US\$0.40/bbl in mid-October. This suggests that we are continuing to see a tightening in the prompt physical market. However as we move into 2020, and as things stand, we would expect spreads to weaken once again, driven by strong supply growth. What would change this is if OPEC+ agree to make deeper cuts over 1H20 at their meeting in early December.

Metals

Metals & trade optimism: Recent disruptions at copper mines in South America, combined with hopes for a phase one trade deal, sent LME copper 3M prices to an intra-day high of \$5,978/tonne on Tuesday- the highest since mid-September. We have not yet seen any substantial improvement in fundamentals for copper, but a potential trade deal should keep market sentiment buoyed in the short term. However, the market focus is likely to return to the macroeconomic picture as manufacturing indicators from major economies are still suggesting a contraction.

Looking at aluminium, there has been a convergence of market strength between LME and ShFE recently, and this is via the former catching up with momentum amid renewed trade optimism. In China, stocks are continuing to edge lower, a supportive factor for local prices. Saying this though, we still believe the China market is facing strong pressure from both the supply and demand-side over the coming months.

The 'tug of war' between expectations for the zinc market and reality has heightened with LME inventory declining, whilst tightness in nearby spreads has reappeared. The timeline for the market transitioning to surplus keeps on shifting, with refined supply from the ex-China market remaining weak and further exacerbated by other outages, such as from Teck. Low stock will still provide support to prices in the short term, but it is difficult to see significant upside from current levels.

Turning to nickel, our views haven't changed since the [last update](#). On Tuesday, the Chairman of China GEM said during a conference that the nickel for a battery project in Indonesia (a joint venture project with Tsingshan and others) will be starting trial production from August 2020.

We think the timing and cost of this project remain key moving forward. A successful ramp-up and smooth operating at a later stage, with a relatively low cost compared to other similar projects, would mark another milestone for nickel's demand structure change.

Agriculture

Indian sugar: The Indian Sugar Mills Association yesterday lowered its production estimates for Indian sugar production from a previous estimate of 28.2mt to 26.85mt. This would leave the Indian domestic sugar market largely in balance for the 2019/20 season, with domestic sugar consumption estimated at around 26mt. This is more constructive for the world market, as it suggests that we will not see another season where India builds stocks. However, while India will be more balanced, the country has entered the 2019/20 season with significant stocks- around 14.5mt, which will remain a threat to the world market.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	62.96	1.34	17.03	Spot Gold (US\$/oz)	1,483.6	-1.74	15.68
NYMEX WTI (US\$/bbl)	57.23	1.22	26.03	Spot Silver (US\$/oz)	17.6	-2.65	13.45
ICE Gasoil (US\$/t)	590	-0.76	15.42	LME Copper (US\$/t)	5,940	1.07	-0.42
NYMEX HO (Usc/g)	196	0.83	16.41	LME Aluminium (US\$/t)	1,811	-0.22	-1.90
Eurobob (US\$/t)	586	0.22	22.21	LME Zinc (US\$/t)	2,498	-1.61	1.26
NYMEX RBOB (Usc/g)	167	0.66	26.51	LME Nickel (US\$/t)	16,280	-0.61	52.29
NYMEX NG (US\$/mmbtu)	2.86	1.45	-2.65				
TTF Natural Gas (EUR/MWh)	16.79	1.89	-23.62	CBOT Corn (Usc/bu)	382	-0.39	1.80
				CBOT Wheat (Usc/bu)	515	1.08	2.38
API2 Coal (US\$/t)	60	1.35	-29.34	CBOT Soybeans (Usc/bu)	922	-0.43	4.45
Newcastle Coal (US\$/t)	68	0.37	-32.94	ICE No.11 Sugar (Usc/lb)	12.71	1.60	5.65
SGX TSI Coking Coal (US\$/t)	137	0.24	-35.17	ICE Arabica (Usc/lb)	106	2.07	3.88
SGX Iron Ore 62% (US\$/t)	80.60	0.47	16.02	ICE London Cocoa (GBP/t)	1,892	-0.84	7.13

Source: Bloomberg, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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