The Commodities Feed: Chinese buying

Your daily roundup of commodity news and ING views

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Energy

The oil market saw quite a bounce last week, with ICE Brent managing to rally a little more than 5% over the week. Oil markets were helped by reports that independent refiners in China were taking advantage of the recent sell-off, and buying cargoes. This increased buying interest has also helped to see prompt spreads strengthen, with the ICE Brent April/May spread flipping from contango to backwardation once again. The more recent strength that we have seen in the market may also make OPEC+ complacent when it comes to taking action. Already the group has failed to bring forward the meeting that was originally scheduled for early March. And if the market consolidates around current levels, OPEC+ may see little need to rush a decision.

Looking at the latest Commitment of Traders report shows that speculators over the last reporting week continued to liquidate their longs, reducing their net long by 69,284 lots, and leaving them with a net long of 283,431 lots as of last Tuesday. Given the rally in the market since last Tuesday, the current net-long is likely larger than it was as of last Tuesday.

Meanwhile, Aker BP has reported that production at the Johan Sverdrup field in Norway is approaching 400Mbbls/d. It is expected that output at the field will reach 440Mbbls/d by the summer under phase one. The second phase of the project is expected to come online in 2022, which would take production to 660Mbbls/d.

Finally, Belarus (which has bought cargoes from the Johan Sverdrup field recently) has threatened to tap the Druzhba pipeline - a transit route for Russian crude oil into Europe. This comes after a long-running price disagreement between the two countries, which has seen Russia reduce flows to Belarus. Clearly, if Belarus were to take such action, this would have an impact on oil flows into the rest of Europe.

Metals

Metal inventories in China continue to rise in line with market expectations due to delayed restarts of downstream operations in China, along with seasonal demand slowdowns. Copper stocks on SHFE increased by 56kt (highest since last March) over the last week, taking total stocks to 263kt as of 14th February. Stocks on SHFE have increased by 107kt since the 23rd January; more than the 87kt increase seen over the same period last year. Among other base metals, aluminium and zinc weekly stocks also rose by 36kt and 24kt respectively; although the gains were almost half of what was reported in the previous week.

According to Antaike, Chinese zinc and alloy production totalled 455kt in January (+18.3%yoy), while 2019 full-year production was revised to 5.12mt (+11% YoY). Production of refined lead in January fell by 17.9% YoY to 330kt, of which secondary lead output declined by over 34% YoY. The production of secondary has remained very elastic to margins, and the production fall in January largely reflected a squeeze on producer margins. The COVID-19 outbreak from late January has caused disruption to the main secondary production regions in China, and there were also reports last week that primary producers were running at reduced rates. Therefore, it is likely that refined lead production declined over February.

Finally, after the strength seen in the market over much of the last week, iron ore futures are holding steady at just under US$86/t. Risks to the downside remain for iron ore, with lower operating rates in China likely weighing on demand. Latest data from Steelhome shows that Chinese iron ore port inventories remained almost flat at 130.7mt as of 14th February. Net inflows in port stocks were around 3.6mt since the start of the month, similar to inflows of 3.5mt reported over the same period last year.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**57.32**	1.74	-13.15
NYMEX WTI (US$/bbl)	**52.05**	1.23	-14.76
ICE Gasoil (US$/t)	**515**	0.39	-16.21
NYMEX HO (Usc/g)	**170**	1.05	-16.27
Eurobob (US$/t)	**523**	0.77	-9.37
NYMEX RBOB (Usc/g)	**158**	0.20	-6.74
NYMEX NG (US$/mmbtu)	**1.84**	0.60	-16.08
TTF Natural Gas (EUR/MWh)	**8.88**	-0.11	-26.32
API2 Coal (US$/t)	**52**	1.55	-3.94
Newcastle Coal (US$/t)	**70**	0.14	1.88
SGX TSI Coking Coal (US$/t)	**160**	-0.47	12.81
SGX Iron Ore 62% (US$/t)	**86.07**	0.03	-5.75

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,584.1**	0.51	4.40
Spot Silver (US$/oz)	**17.7**	0.53	-0.62
LME Copper (US$/t)	**5,760**	-0.52	-6.71
LME Aluminium (US$/t)	**1,722**	-1.49	-4.86
LME Zinc (US$/t)	**2,149**	-1.20	-5.41
LME Nickel (US$/t)	**13,015**	-2.03	-7.20
CBOT Corn (Usc/bu)	**378**	-0.46	-2.58
CBOT Wheat (Usc/bu)	**543**	-0.28	-2.86
CBOT Soybeans (Usc/bu)	**894**	-0.28	-5.22
ICE No.11 Sugar (Usc/lb)	**15.06**	-0.66	12.22
ICE Arabica (USc/lb)	**109**	4.45	-15.88
ICE London Cocoa (GBP/t)	**1,963**	-0.56	7.92

Source: Bloomberg, ING Research

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