

# The Commodities Feed: Widening contango

Your daily roundup of commodity news and ING views



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## Energy

ICE Brent saw some recovery this morning after dropping nearly 9% yesterday. While President Donald Trump's travel bans further battered prospects for oil demand, producers are still trying to pump more. Russia indicated that it will also increase supply from April 2020, in order to retain market share. Russia could increase production by around 300-500Mbbbls/d from next month onwards taking its total production to around 11.6-11.8MMbbbls/d and adding to the supply glut in the physical market. For Russia, rouble depreciation and lower break-even costs are supportive factors to keep the oil flowing into the market even as oil prices drop to multi-year lows.

Meanwhile, the crude oil forward curves have steepened sharply over the last few days with prompt month trading at a bigger discount to one-year futures due to ample supplies in the physical market. ICE Brent 12-month spread over the 1M futures increased to a five year high of US\$9.85/bbl (Contango), sharply up from negative US\$2/bbl on 21 February. Similarly in the US, NYMEX WTI 12M has been trading at a premium of US\$6.6/bbl over the prompt month future, up from negative US\$1.1/bbl on 21 February. Higher Contango partly reflects the higher storage costs due to the increased demand for storage tanks; however, it also points to increasing surplus in the

physical market.

Turning to products and data from Energy Insight shows that gasoil inventory at ARA storage hub dropped by 229kt over the last week with current stocks falling to a one-year low of 1.9mt. The gasoil inventory at ARA is significantly below the 5-year seasonal average of around 2.9mt. Among other products, jet fuel stocks dropped by 37kt to a five-year low of 395kt while gasoline stocks also dropped by 103kt due to higher exports. Lower stockpiles of refined products may offer some support to the product cracks; though future demand prospects will continue to be the major price driver.

## Metals

Both base metals and precious metals saw price erosion yesterday as demand prospects continue to soften for industrial metals while margin calls may have induced selling in precious metals as well. Palladium was the big loser yesterday, shedding nearly 20% as weak automobile market lowers demand prospects for the auto-catalyst metals. Gold and silver lost around 3.6% and 5.6% respectively on broad selling pressure in the market.

Alumina prices have recovered nearly 7-8% over the past month over the supply tightness even though aluminium prices continue to weaken due to demand prospects. LME alumina prices have increased to US\$301/t currently compared to US\$280/t a month ago. During the same period, LME aluminium dropped from US\$1,748/t to US\$1,656/t. the divergence in prices has pushed the alumina/aluminium price ratio to 18.2% compared to 16% a month ago and impacting the profitability of aluminium smelters. Lower operating rates at alumina refineries in China due to logistical issues in importing and transporting the raw material have been weighing on alumina supplies in the country.

For nickel, Indonesia's Energy and Mineral Resource ministry estimates that the country could increase its processed nickel output to 2.02mt in 2020 compared to 1.8mt in 2019 as more smelters start production. Since the nickel ore export ban implemented late last year, Indonesia has seen investment in downstream capacity increase which should help the country to increase the output of processed metals.

## Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	32.71	-8.66	-50.45	Spot Gold (US\$/oz)	1,576.2	-3.60	3.88
NYMEX WTI (US\$/bbl)	30.79	-6.58	-49.67	Spot Silver (US\$/oz)	15.8	-5.57	-11.37
ICE Gasoil (US\$/t)	343	-7.74	-44.29	LME Copper (US\$/t)	5,444	-1.54	-11.82
NYMEX HO (USc/g)	116	-6.32	-42.82	LME Aluminium (US\$/t)	1,656	-1.13	-8.51
Eurobob (US\$/t)	311	-13.37	-46.21	LME Zinc (US\$/t)	1,938	-2.47	-14.70
NYMEX RBOB (USc/g)	90	-19.17	-47.14	LME Nickel (US\$/t)	11,830	-4.75	-15.65
NYMEX NG (US\$/mmbtu)	1.84	-1.97	-15.90				
TTF Natural Gas (EUR/MWh)	10.43	-1.35	-22.93	CBOT Corn (USc/bu)	370	-2.50	-4.64
				CBOT Wheat (USc/bu)	508	-1.74	-9.04
API2 Coal (US\$/t)	47	-1.05	-13.47	CBOT Soybeans (USc/bu)	855	-1.47	-9.33
Newcastle Coal (US\$/t)	65	-0.69	-6.44	ICE No.11 Sugar (USc/lb)	11.62	-5.22	-13.41
SGX TSI Coking Coal (US\$/t)	159	3.17	12.52	ICE Arabica (USc/lb)	109	-2.15	-15.84
SGX Iron Ore 62% (US\$/t)	87.15	0.31	-4.57	ICE London Cocoa (GBP/t)	2,292	-4.11	-5.00

Source: Bloomberg, ING Research

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