

The Commodities Feed: Corn moves higher

Your daily roundup of commodity news and ING views



Energy

The oil market continues to be fairly well supported, with ICE Brent trading around the US\$65/bbl level, as broader sentiment remains positive with the phase one trade deal. Oil fundamentals also remain constructive, with global inventories declining, and this tightening is reflected in the prompt ICE Brent time spread which continues to trade deep in backwardation. Clearly the return to surplus over 1H20 is something the market will have to deal with, while the weak refinery margins at the moment do pose questions around crude oil demand moving forward, with the risk that lower margins will see refineries reduce run rates. We expect downward pressure on oil prices to resume as we move into 1H20, but the level of pressure will depend largely on the details around the phase one trade deal, along with action that OPEC+ will take over 2Q20 to tackle the surplus during that period.

Turning to products, yesterday European gasoil cracks got a boost with the spot crack rallying above US\$16/bbl, while prompt time spreads also moved deeper into backwardation. The strength in the front end of the curve appears to be largely driven by refinery outages and strike disruptions occurring in France. This is welcome news for the bulls, which have seen the gasoil crack under pressure since October, despite the fact that we are moving ever closer to IMO shipping

regulations, which come into force on 1 January.

The EIA released its drilling productivity report yesterday, where it forecast that US shale oil output will increase by 30Mbbbls/d in January from an estimated 9.11MMbbbls/d in December, with increases expected to be largely driven by the Permian region. Meanwhile latest drilled but uncompleted well (DUCs) data also shows that the number of DUCs fell by 131 over November to total 7,574, which takes total DUC declines to 855 since May. These declines clearly illustrate the slowdown seen in US drilling activity.

Later today the API will release their US inventory numbers for last week, and market expectations are that US crude oil inventories declined by 1.75MMbbbls over the last week, according to a Bloomberg survey. Meanwhile on the product side, expectations are that gasoline inventories increased by 2MMbbbls, while distillate fuel oil inventories declined by 500Mbbbls.

Metals

Positive sentiment prevailed for the bulk of the metals complex yesterday, as the market continues to hold an optimistic view on phase one of the trade deal. Detail around the deal remains elusive. Healthy macro data from China was also supportive for the metals complex, with industrial production growing 6.2% YoY in November (compared to 4.7% last month), while retail sales grew 8% YoY, up from 7.2% in October.

Copper has benefited from renewed optimism, with LME copper settling more than 1.1% higher on the day. Meanwhile persistent exchange inventory declines have only offered further support. Zinc led the move higher yesterday, closing 1.69% higher on the day. The fundamental story remains fairly bearish, while the expected inventory buildup in China has taken longer than anticipated to come to fruition. LME zinc inventories have also once again been in moderate decline, and this does increase the risk of tightening in the prompt spreads. Zinc's cash-3m spread flipped back to a small backwardation of US\$10.5/t, having been in contango briefly last week.

Agriculture

The strength seen in CBOT corn last week continued yesterday, with the outlook for the grain looking more constructive. Broadly speaking trade developments are bullish, with a deal that sees China buying US soybeans likely changing planting intentions for US farmers in 2020. Clarity on trade would likely mean that farmers shift back to soybeans at the expense of corn, tightening the balance sheet for corn in 2020/21. Meanwhile an announced increase in export taxes from Argentina has offered further support. Additionally, while demand for US corn has been poor for much of the current marketing year, we have seen a pick-up more recently. Export inspection data from the USDA shows that corn inspections last week totaled 687kt, up from 490kt in the previous week, and the strongest inspection number seen this marketing year. While the numbers are looking better, cumulative inspections this marketing year are still well behind last year, totaling 7.23mt, down from 16mt at the same stage last year.

Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	65.34	0.18		21.45		Spot Gold (US\$/oz)	1,476.2	-0.01		15.10	
NYMEX WTI (US\$/bbl)	60.21	0.23		32.59		Spot Silver (US\$/oz)	17.0	0.63		9.97	
ICE Gasoil (US\$/t)	607	1.93		18.80		LME Copper (US\$/t)	6,199	1.13		3.92	
NYMEX HO (Usc/g)	200	0.91		19.26		LME Aluminium (US\$/t)	1,778	0.57		-3.68	
Eurobob (US\$/t)	574	0.39		19.63		LME Zinc (US\$/t)	2,291	1.69		-7.13	
NYMEX RBOB (Usc/g)	166	-0.03		25.61		LME Nickel (US\$/t)	14,200	0.21		32.83	
NYMEX NG (US\$/mmbtu)	2.34	1.96		-20.37		CBOT Corn (Usc/bu)	388	5.94		3.47	
TTF Natural Gas (EUR/MWh)	13.89	0.62		-36.81		CBOT Wheat (Usc/bu)	550	1.95		9.24	
API2 Coal (US\$/t)	57	-0.52		-32.64		CBOT Soybeans (Usc/bu)	922	1.60		4.48	
Newcastle Coal (US\$/t)	67	0.22		-33.78		ICE No.11 Sugar (Usc/lb)	13.29	-1.56		10.47	
SGX TSI Coking Coal (US\$/t)	138	0.98		-34.77		ICE Arabica (Usc/lb)	136	4.91		33.33	
SGX Iron Ore 62% (US\$/t)	92.54	-0.42		33.21		ICE London Cocoa (GBP/t)	1,768	-1.50		0.11	

Source: Bloomberg, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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