

The Commodities Feed: Demand vs. supply risks

Your daily roundup of commodity news and ING views



Source: iStock

Energy

Oil markets got a hammering yesterday, with ICE Brent settling more than 2% lower on the day, and early morning trading today has seen a continuation of this trend. Brent is down more than 1.6% at the time of writing. Downside demand risks due to the Wuhan virus appear to be a growing concern for the market, and understandably so, with any clampdown on travel likely to weigh on fuel demand. China has already halted all outbound flights from Wuhan, while there have also been restrictions on travelling within the city. Wuhan is sometimes referred to as the Chicago of China as our Asian chief economist [points out, along with some other interesting facts and stats](#). However while markets are obsessing over virus developments, they seem to be ignoring a number of oil supply risks in the market, which in aggregate would far outweigh the demand impact from the Wuhan virus.

Firstly, the big news from earlier in the week was the blockades in Libya which could still see output falling as much as 1.1MMbbls/d in the coming days. Then in Iraq, security guards blocked access to the 70MMbbls/d Al Ahdab oilfield, forcing its closure. The disruptions do not end there, with more recent reports that Kazakhstan has halted oil flows to China via a pipeline due to

contamination issues. Oil from the CNPC-Aktobemunaigas field has not been allowed into the pipeline system since the 16 January, with high levels of organic chloride found in the crude oil. Obviously the impact from this is not as significant as the Druzhba pipeline contamination last year, with Kazakh flows to China reportedly averaging 30Mbbls/d in 2018, compared to the 1.2MMbbls/d capacity of the Druzhba pipeline. Finally, one more to add to the list of disruptions is Shell declaring force majeure on Bonny Light exports from Nigeria, with the shutting down of the 150Mbbls/d Nembe Creek pipeline.

So if we were to do a quick back of the envelope calculation, these disruptions add up to somewhere in the region of 1.4MMbbls/d, which would be more than enough to shift the global market into deficit over 1H20. Spare capacity appears to be a key factor which is keeping a lid on prices, with OPEC holding in excess of 3MMbbls/d of spare capacity.

However there are still plenty of supply risks in the market, and given the recent instability in Iraq, this is a growing supply risk. While the market may shrug at supply losses from Libya, it would be more difficult for the market to ignore large Iraqi supply losses if they became a reality, as Iraq is OPEC's second-largest producer.

Elsewhere, the API yesterday reported that US crude oil inventories increased by 1.57MMbbls/d, which was just a bit more than the market was expecting. Meanwhile big builds on the product side were reported once again, with gasoline and distillate fuel oil inventories increasing by 4.51MMbbls and 3.49MMbbls respectively. The more widely followed EIA report will be released later today, and numbers similar to the API would likely put some downward pressure on refinery margins, which have been in doldrums for quite some time now.

Metals

Metals markets have been unable to escape concerns over the Wuhan virus, with copper giving up all of its YTD gains, and falling to as low as US\$6,095 yesterday. Another big inflow of copper into LME warehouses yesterday, also did little to support sentiment in the market. There has now been a total of 71kt copper delivered into the LME system just within two days. However, so far the spreads have reacted less dramatically, with the cash/3m spread only slipping by US\$2 to US\$33.5 contango. LME 3m copper closed 0.9% lower at US\$6,103/tonne. In the short term, and similar to broader markets, developments on the virus side are likely to be key.

On data releases, yesterday the International Lead and Zinc Study Group (ILZSG) said that both lead and zinc markets were in deficit by 33kt and 170kt respectively during the first eleven months of 2019. However, we think the China market has already swung to surplus over 4Q19, on the back of strong production growth amid high treatment charges. Looking at 2020, the China market is set to remain in surplus, but in order to weigh on prices we will need to see tangible evidence of stock builds.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	63.21	-2.14	-4.23	Spot Gold (US\$/oz)	1,558.8	0.04	2.74
NYMEX WTI (US\$/bbl)	56.74	-2.74	-7.08	Spot Silver (US\$/oz)	17.8	0.29	-0.07
ICE Gasoil (US\$/t)	552	-2.94	-10.06	LME Copper (US\$/t)	6,106	-0.88	-1.10
NYMEX HO (Usc/g)	180	-1.59	-11.25	LME Aluminium (US\$/t)	1,811	-0.74	0.06
Eurobob (US\$/t)	577	-0.86	0.03	LME Zinc (US\$/t)	2,396	-2.38	5.46
NYMEX RBOB (Usc/g)	158	-3.48	-6.96	LME Nickel (US\$/t)	13,640	-0.18	-2.75
NYMEX NG (US\$/mmbtu)	1.91	0.53	-12.97				
TTF Natural Gas (EUR/MWh)	10.46	-2.99	-13.24	CBOT Corn (Usc/bu)	389	0.32	0.26
				CBOT Wheat (Usc/bu)	578	-0.64	3.40
API2 Coal (US\$/t)	49	0.00	-8.51	CBOT Soybeans (Usc/bu)	914	-0.25	-3.10
Newcastle Coal (US\$/t)	68	-3.74	-1.09	ICE No.11 Sugar (Usc/lb)	14.66	0.76	9.24
SGX TSI Coking Coal (US\$/t)	153	-0.01	8.13	ICE Arabica (Usc/lb)	111	-0.05	-14.42
SGX Iron Ore 62% (US\$/t)	94.13	-0.23	3.08	ICE London Cocoa (GBP/t)	1,998	-1.43	9.84

Source: Bloomberg, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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