The Commodities Feed: Easing geopolitical worries & trade optimism

Your daily roundup of commodity news and ING views

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Energy

Geopolitical risks continue to fade for the oil market, with ICE Brent coming under further pressure yesterday, settling 1.2% lower. This should allow fundamentals to return as the key driver for the market. Unfortunately for the bulls, the fundamental outlook over the first half of this year is not overly constructive. The market is set to see a sizeable surplus, which should mean weakness for both the flat price and time spreads. How much weakness is seen, is largely dependent on what OPEC+ decide when they meet in early March. The balance sheet suggests that the current deal will need to be extended through until the end of June. However, the usual worries over whether the likes of Russia are willing to extend the deal will resurface as we approach the March meeting. For now, expectations for a well-supplied market are not reflected in the time spreads. While the prompt ICE Brent spread has come off from its highs seen earlier in the month, it still remains deep in backwardation, suggesting the prompt physical market is still quite tight.

It is a data-packed week for the oil market. This morning, Chinese trade data for December will be released, and with the start-up of the Power of Siberia pipeline in early December, we would expect to see stronger pipeline gas imports into the country. Given the weakness in refinery margins, in particular Asia, we would expect sizeable exports of refined products over the month. Then later in the day, the EIA will release its Short Term Energy Outlook, where we will keep an eye on their US production growth forecast for this year- with the falling rig count, the positive supply growth estimates for the US are increasingly coming under question. The EIA's current supply growth forecast is 930Mbbls/d, down from 1MMbbs/d previously. Then moving onto Wednesday, OPEC will release its monthly oil market report, which will include production numbers for the group over December, and global supply & demand forecasts. This will be followed by the IEA's monthly report on Thursday, where the agency will share its view on the state of the market.

Then a key event this week for broader markets is the expected signing of the phase-one trade deal between the US and China tomorrow. This is already mostly priced into the oil market, given the strong rally we saw in prices following the initial announcement from the US. In fact, risks are likely to the downside, if details of the trade deal disappoint markets.

Metals

Monday was a mixed bag for base metals, but for copper, clearly the more positive macro sentiment has been supportive. The odds of getting the phase-one deal done have risen after China confirmed the dates of prime minister Liu He's visit to Washington, while reports that the US will remove the currency manipulator tag for China only helps. LME 3M copper touched an intraday high of US$6,299, the highest since last April, which saw the metal settle almost 1.5% higher on Monday. A short-term trade truce has provided copper with a firm grounding, while declines in LME inventories have only added further support to the market.

Turning to aluminium, the market largely ignored the 14k tonnes of inventory outflows from LME warehouses, settling 0.44% lower on the day. As we pointed out in our aluminium outlook from December, the decent contango structure was lucrative for financing deals to lock up stocks. The ebb and flow in LME inventories over the past two months seems to be more of a story of financing deals, rather than anything else.

On Ferrous metals, media reports suggest that China may not allow any steel capacity additions in 2020, given the current overcapacity in the country, and Beijing's plans to implement supply-side structural reforms. Additionally, China also aims to continue closing outdated capacity to fight pollution, and achieve its long-term goal of 1bn capacity by 2025, compared to around 1.2bn capacity as of the end of 2019. Capacity restraints could limit steel production growth in the country and impact iron ore demand this year. However, the same measures could be supportive for higher-grade iron ore, as steel mills make efforts to increase steel production with available capacity. Meanwhile, China has asked steel mills in some regions to cut output in the immediate term to curb pollution. Limited details are available at the moment, but the news may weigh on the iron ore market in the short term.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**64.2**	-1.20	-2.73	Spot Gold (US$/oz)	**1,547.9**	-0.93	2.02
NYMEX WTI (US$/bbl)	**58.08**	-1.63	-4.88	Spot Silver (US$/oz)	**18.0**	-0.86	0.60
ICE Gasoil (US$/t)	**577**	-2.74	-6.03	LME Copper (US$/t)	**6,290**	1.48	1.88
NYMEX HO (Usc/g)	**190**	-1.58	-6.42	LME Aluminium (US$/t)	**1,798**	-0.44	-0.66
Eurobob (US$/t)	**586**	0.08	1.45	LME Zinc (US$/t)	**2,378**	0.00	4.67
NYMEX RBOB (Usc/g)	**166**	-0.14	-2.39	LME Nickel (US$/t)	**14,095**	-0.67	0.50
NYMEX NG (US$/mmbtu)	**2.18**	-0.91	-0.32				
TTF Natural Gas (EUR/MWh)	**12.05**	0.95	0.02	CBOT Corn (Usc/bu)	**390**	0.97	0.45
				CBOT Wheat (Usc/bu)	**562**	-0.40	0.63
API2 Coal (US$/t)	**55**	1.56	2.41	CBOT Soybeans (Usc/bu)	**929**	-0.61	-1.46
Newcastle Coal (US$/t)	**77**	1.71	11.73	ICE No.11 Sugar (Usc/lb)	**14.16**	0.64	5.51
SGX TSI Coking Coal (US$/t)	**155**	0.21	9.42	ICE Arabica (USc/lb)	**115**	-3.70	-11.68
SGX Iron Ore 62% (US$/t)	**93.14**	1.22	1.99	ICE London Cocoa (GBP/t)	**1,900**	1.06	4.45

Source: Bloomberg, ING Research

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