The Commodities Feed: Election volatility

Your daily roundup of commodity news and ING views

Energy

Oil had a fairly volatile day yesterday, as results from the US election started to roll in. Odds on the outcome of the election changed throughout the day, and this had an impact not just on oil, but the broader commodities complex. The presidential race has been much closer than anticipated, and clearly there is no 'blue wave' as polls were suggesting. However, Biden is edging closer towards the magic 270 mark needed to win. While the expected weakness in the USD from a Biden presidency should be supportive for the broader commodities complex, for oil the shorter term outlook would be bearish, given the increased likelihood that the Democrats take a softer approach towards Iran, which could lead to the lifting of sanctions, and so the return of Iranian oil supply to the market.

Meanwhile yesterday's EIA report was constructive. It reported that US crude oil inventories declined by almost 8MMbbls over the last week, similar to the API report the previous day, but much more than the market was expecting. Disruptions from hurricane activity in the US Gulf of Mexico would have had an impact on the numbers. Estimates suggest that production fell by 600Mbbls/d, while both imports and exports of crude oil were hit as a result of the storm. The draw was predominantly driven by a 635Mbbls/d fall in imports, while production declined by an estimated 600Mbbls/d, due to hurricane disruptions in the US Gulf of Mexico. Meanwhile on the product side, gasoline stocks increased by 1.54MMbbls over the week, while distillate fuel oil inventories fell by 1.58MMbbls.

Metals

Price action across the metals complex was choppy yesterday, whipsawed by the uncertainty around the US election result. Most LME metals managed to close higher on the day, with the USD coming under pressure as the day progressed. LME 3M aluminium closed firmly above US$1,900/t for the second consecutive day, and levels last seen back in March 2019. Currently, the longs still look quite dominant, particularly around the November prompt; meanwhile, the nearby spreads continue to churn with some continued flirting with backwardation. The cash/3m spread briefly flipped to US$2.25/t (backwardation) on Tuesday, last seen in December 2019, but this has returned to a contango of US$7/t as of yesterday's close.

In copper, mine supply worries in Chile continue to provide some support to the market. The on-going strike at the Candelaria copper mine entered its fourth week, as 96% of the Mine Workers Union did not accept the latest wage offer made by the management after voting on Tuesday. Meanwhile, the Chilean state-owned producer, Codelco plans to keep its premium unchanged for 2021. It wants to continue supplying copper at US$88/t over the LME price for Chinese buyers and US$98/t for buyers in Europe. However, Chinese buyers do not believe this premium reflects current market dynamics. With the latest wave of Covid-19 cases in Europe and the US, along with new lockdown measures in prts of Europe, copper demand is likely to remain subdued over the coming months. Maike Metals International Ltd., (one of the largest refined copper importers), who is leading annual talks with Codelco, has suggested that expectations from local buyers were for a premium of around US$70/t.

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