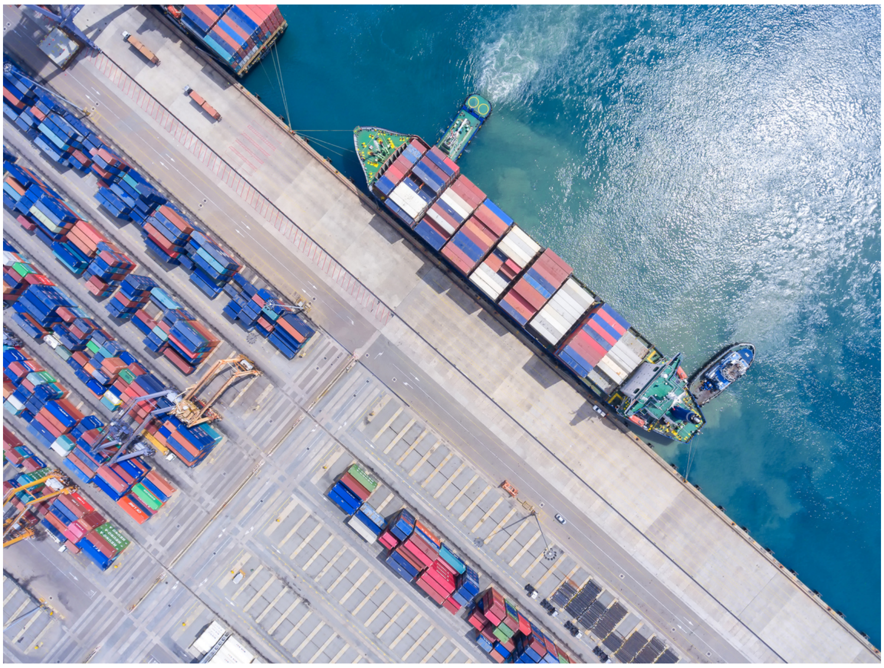
The Commodities Feed: False hope?

Your daily roundup of commodity news and ING views



Energy

It's been a quiet start to early morning trading for oil markets, with Brent and WTI flat to marginally higher at time of writing. Energy markets have reacted positively to the phase one trade deal. But as our China economist and trade team point out, not much has changed, with the bulk of US tariffs on Chinese goods remaining in place, the impact on Chinese growth will likely be limited. Back to oil, and yesterday's IEA monthly oil market report did not contain any big surprises, with the agency still forecasting that the global oil market will see a fairly hefty surplus over 1H20. It forecasts that the call on OPEC production over the first half of the year will be 28.5MMbbls/d, almost 1MMbbls/d lower than what OPEC produced over December. Agreed deeper cuts over 1Q20 will help. However, these cuts do not currently address the issue of the expected 2Q20 surplus. This will be an issue that will only be tackled at the OPEC+ meeting scheduled for March. Meanwhile, the agency continues to forecast that non-OPEC supply will grow by 2.1MMbbls/d over 2020, whilst global demand is set to increase by 1.2MMbbls/d for the year- both unchanged from previous estimates.

Turning to refined products, and it has been a week of stock increases. Earlier in the week the EIA reported significant builds in product inventories, and in particular distillate fuel oil and gasoline. Meanwhile in Singapore product stocks increased by 2.77MMbbls over the week to total

45.99MMbbls, whilst for Europe, ARA inventories grew by 95kt to 5.77mt, according to Insights Global. Then, finally, in Fujairah, there have also been reports of increases in middle distillate inventories recently. Stock builds across products and regions are doing little to help refiners, who continue to grapple with weak refinery margins. This weakness raises questions over product demand, and a large part of this weakness appears to be coming from middle distillates, where a mild winter is weighing on heating demand.

Metals

Palladium continues to move higher, with prices settling up a little over 2% yesterday, and taking YTD gains to almost 20% with what looks like a short-squeeze as the physical market continues to tighten. South Africa reported that its mining production of PGM metals dropped sharply by 13.5% YoY in November, a time when electricity supply woes resurfaced in the country. Further disruptions to supply cannot be ruled out, with the mining industry still facing frequent and unscheduled power outages. Further weakness in mining production can't be ruled out. While higher prices should be encouraging miners to look to boost output, palladium is largely produced as a by-product, making supply more inelastic. In financial markets, ETF investors have turned from a net supplier of the metal to net buyers over the past few months, further tightening the market.

Base metal markets were also in a jubilant mood yesterday, with the bulk of the base metals complex participating in the rally after details of the trade deal were (questionably) seen as largely positive. LME data shows that nickel inventories at warehouses increased by another 4.4kt yesterday, taking total stocks to 183kt, levels last seen in March. The LME has seen a total inflow of 114kt of nickel in little over a month, with the majority of this flowing into Asian and European warehouses. A large build-up of inventory on the LME has pushed the nickel market into deeper contango, with the cash/3M spread moving to a discount of US$80/t, compared to an average discount of US$24/t in December. However, the trend could reverse, or at least pause as cancelled warrants have increased sharply to 54.3kt, compared to 30.1kt a week ago, and this may result in inventory being drawn down over the coming weeks.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**64.62**	0.97	-2.09
NYMEX WTI (US$/bbl)	**58.52**	1.23	-4.16
ICE Gasoil (US$/t)	**576**	0.04	-6.19
NYMEX HO (Usc/g)	**186**	-0.95	-8.30
Eurobob (US$/t)	**586**	0.68	1.53
NYMEX RBOB (Usc/g)	**165**	1.10	-2.53
NYMEX NG (US$/mmbtu)	**2.08**	-2.03	-5.12
TTF Natural Gas (EUR/MWh)	**11.12**	-0.55	-7.75
API2 Coal (US$/t)	**52**	-4.50	-5.37
Newcastle Coal (US$/t)	**72**	-2.11	4.06
SGX TSI Coking Coal (US$/t)	**154**	-0.02	8.83
SGX Iron Ore 62% (US$/t)	**93.87**	-0.31	2.79

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,552.5**	-0.24	2.32
Spot Silver (US$/oz)	**17.9**	-0.34	0.51
LME Copper (US$/t)	**6,278**	-0.15	1.68
LME Aluminium (US$/t)	**1,812**	0.61	0.11
LME Zinc (US$/t)	**2,422**	1.55	6.60
LME Nickel (US$/t)	**13,775**	-3.94	-1.78
CBOT Corn (Usc/bu)	**376**	-3.10	-3.16
CBOT Wheat (Usc/bu)	**565**	-1.40	1.16
CBOT Soybeans (Usc/bu)	**924**	-0.51	-2.01
ICE No.11 Sugar (Usc/lb)	**14.43**	-0.62	7.53
ICE Arabica (USc/lb)	**113**	-1.18	-12.91
ICE London Cocoa (GBP/t)	**1,955**	-1.11	7.48

Source: Bloomberg, ING Research

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