

The Commodities Feed: Fed guidance weighs on the complex

Your daily roundup of commodity news and ING views



Oil prices have sold off aggressively

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Energy

US oil numbers: The EIA yesterday reported that US crude oil inventories fell by 8.5MMbbls over the last week, higher than the 6.02MMbbls draw reported by the API the previous day, and significantly higher than the 2.75MMbbls draw the market was expecting. This large drawdown occurred despite the fact that we saw a recovery in crude oil production in the Gulf of Mexico following storm activity, along with the fact that crude oil exports fell by 718Mbbls/d over the week to average 2.57MMbbls/d. What did help contribute to the draw was a decline in imports, with crude inflows falling by 365Mbbls/d, along with a big swing in adjustments, from 450Mbbls the week before to -512Mbbls/d in the last week.

The report overall was bullish, helped by the fact that we also saw stock drawdowns for both gasoline and distillate fuel oil. This is now the seventh consecutive week of crude oil drawdowns reported by the EIA, and since early June we have seen US crude oil inventories fall by almost 49MMbbls, taking them to levels last seen in November 2018, however they still remain just above the five-year average for this time of year.

Looking at price action in oil this morning however tells a different story, with ICE Brent off by a little over 1% at the time of writing, and this appears to be as a result of the outcome of the US Federal Reserve meeting yesterday. While the Fed cut rates largely as expected, the market does seem disappointed with the forward guidance that was provided.

Metals

Metals under pressure: The metals complex has come under renewed pressure, and this morning the key driver has been US Fed policy. The US fed delivered a 25bp cut but cited it as more like an “insurance against the downside risks” rather than the start of a rate cut cycle, giving itself more flexibility for rate adjustments moving forward. Two Fed members voted against the rate cut due to the low unemployment rate and modest economic growth, indicating that further rate cuts may face more resistance if economic data does not deteriorate. Other pressure would have come from inconclusive trade talks between China and the US, while the Chinese manufacturing PMI came in at 49.7 for July, the third consecutive month of contraction in industrial activity.

Gold market balance: Data released by the World Gold Council shows that the surplus in the physical gold market narrowed from 72.1 tonnes in 1Q19 to 40.6 tonnes in 2Q19 on the back of healthy demand. Demand from central banks and institutions increased 47% quarter-on-quarter to 224 tonnes in 2Q19, while ETF demand also remained firm. India’s demand for gold recovered in 2Q19 as a result of the festival and wedding season; however, the outlook for 3Q19 remains soft as a result of a hike in import duties, stress in the rural economy due to a weaker monsoon and stronger gold prices. Demand from financial markets in 3Q19 will be largely dependent upon policy measures adopted by the US Fed, ECB and People's Bank of China.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	65.17	0.70	21.13	Spot Gold (US\$/oz)	1,413.8	-1.20	10.24
NYMEX WTI (US\$/bbl)	58.58	0.91	29.00	Spot Silver (US\$/oz)	16.3	-1.84	4.97
ICE Gasoil (US\$/t)	602	1.60	17.82	LME Copper (US\$/t)	5,927	-0.35	-0.64
NYMEX HO (Usc/g)	196	0.57	16.31	LME Aluminium (US\$/t)	1,799	-0.22	-2.55
Eurobob (US\$/t)	634	0.02	32.21	LME Zinc (US\$/t)	2,444	-0.65	-0.93
NYMEX RBOB (Usc/g)	190	0.27	43.69	LME Nickel (US\$/t)	14,490	0.91	35.55
NYMEX NG (US\$/mmbtu)	2.23	4.49	-24.05				
TTF Natural Gas (EUR/MWh)	11.00	12.33	-49.97	CBOT Corn (Usc/bu)	400	-2.67	6.73
				CBOT Wheat (Usc/bu)	487	-2.01	-3.18
API2 Coal (US\$/t)	60	-0.42	-30.41	CBOT Soybeans (Usc/bu)	864	-1.68	-2.10
Newcastle Coal (US\$/t)	72	0.28	-28.70	ICE No.11 Sugar (Usc/lb)	12.21	0.49	1.50
SGX TSI Coking Coal (US\$/t)	156	-0.12	-26.42	ICE Arabica (USc/lb)	100	0.15	-2.16
SGX Iron Ore 62% (US\$/t)	116.30	-0.71	67.41	ICE London Cocoa (GBP/t)	1,825	-1.19	3.34

Source: Bloomberg, ING Research

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