The Commodities Feed: (Flawed) market optimism

Your daily roundup of commodity news and ING views

Energy

Oil finally managed to get a boost higher yesterday, with ICE Brent settling 2.45% higher on the day, and this strength has continued in early morning trading today. Claims of a vaccine breakthrough (which the World Health Organization later played down) for the Coronavirus was used as the excuse for the move higher. However as our Asian chief economist, ever the optimist, clearly points out there is very little substance in these claims, and so markets may be getting a bit carried away. Although to be fair given the pressure we have seen the oil market under recently, it does seem that a relief rally was long overdue.

Meanwhile, a handful of OPEC+ members met for a second day in Vienna yesterday, though are still unable to reach a consensus on how to tackle the demand impact from the virus. This means meetings resume today, and so too, therefore, does the potential for more noise around what OPEC+ may do. That is unlikely to be the end of it though, with further noise likely until we see a full OPEC+ gathering. Media reports suggest that Russia would be willing to extend the current cuts, but does not feel the need for additional cuts. Given Libyan supply disruptions, and assuming OPEC's demand impact numbers that we mentioned yesterday are roughly right, an extension should be enough to do the job. However, there is plenty of uncertainty around both of these factors, with Libyan output potentially able to recover fairly quickly, while the demand picture will constantly be evolving.

Elsewhere, Saudi Arabia has cut its official selling price for Arab Light by US$0.80/bbl for sales into Asia in March. This takes the official selling price to US$2.90/bbl, which is the lowest since October. Aramco also cut prices for all other grades going into Asia over the month, with the exception of Arab Heavy. The cuts appear to be reflective of expectations for weaker Chinese demand due to the virus. Lower crude differentials, along with falling freight should offer some relief to refining margins, and this is already evident in Asia, where Singapore margins have shifted back to positive territory, and are at their highest since November.

Finally, the market largely ignored the weekly EIA report, which showed that US crude oil inventories increased by 3.36MMbbls over the last week, which was slightly more than market expectations, but less than the 4.18MMbbls build that the API reported the previous day. Meanwhile a surprise draw of 91Mbbls was reported in gasoline, which was fairly supportive for the cracks at the time. Stronger domestic demand and a pick-up in gasoline exports appear to be what led to the surprise drawdown. Overall though, the muted response from the market following the release was appropriate.

Metals

Markets remain very sensitive to any developments related to the coronavirus, and this was highlighted with the rally across the LME metals complex over (optimistic) claims of a vaccine breakthrough for the coronavirus. Meanwhile, there were further headlines pointing towards rising supply-side risks from Chinese smelters. For copper, there seems to be mixed information on whether cuts have actually happened or if it is still more of a risk. Still, there appears to be agreement that sulphuric acid storage and logistical constraints are real threats. Expectations are that if the situation does not improve over the next 10 days or so, supply disruptions will start to emerge. Much of China's industry plans to return to work on 10 February, in line with official guidance, and so this is when we are likely to get more clarity on the impact. While we are unlikely to see a full return of workers from this date, some companies may return with a reduced workforce. National railway data shows that the number of people who travelled by rail on the 4th February fell by 89% YoY. Keeping track of this data over the next week or so, should provide a good signal on when we start to see a move back towards normality.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**55.28**	2.45	-16.24
NYMEX WTI (US$/bbl)	**50.75**	2.30	-16.89
ICE Gasoil (US$/t)	**506**	2.95	-17.55
NYMEX HO (Usc/g)	**165**	3.88	-18.88
Eurobob (US$/t)	**510**	2.01	-11.61
NYMEX RBOB (Usc/g)	**149**	2.99	-12.46
NYMEX NG (US$/mmbtu)	**1.86**	-0.59	-14.98
TTF Natural Gas (EUR/MWh)	**9.31**	-0.57	-22.72
API2 Coal (US$/t)	**53**	0.38	-4.37
Newcastle Coal (US$/t)	**71**	2.52	2.97
SGX TSI Coking Coal (US$/t)	**148**	1.26	4.73
SGX Iron Ore 62% (US$/t)	**78.54**	-2.78	-13.99

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,556.0**	0.20	2.55
Spot Silver (US$/oz)	**17.6**	0.09	-1.35
LME Copper (US$/t)	**5,722**	1.85	-7.32
LME Aluminium (US$/t)	**1,717**	1.84	-5.14
LME Zinc (US$/t)	**2,213**	2.15	-2.60
LME Nickel (US$/t)	**13,160**	2.57	-6.17
CBOT Corn (Usc/bu)	**381**	-0.39	-1.81
CBOT Wheat (Usc/bu)	**562**	0.85	0.58
CBOT Soybeans (Usc/bu)	**880**	0.06	-6.68
ICE No.11 Sugar (Usc/lb)	**14.73**	0.14	9.76
ICE Arabica (USc/lb)	**98**	-0.41	-24.63
ICE London Cocoa (GBP/t)	**1,970**	2.18	8.30

Source: Bloomberg, ING Research

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