

The Commodities Feed: Gold plunges

Your daily roundup of commodity news and ING views



Energy

Price action in oil remains subdued, particularly when compared to other parts of the commodities complex- just look at the move in silver and gold yesterday. API numbers out overnight showed that US crude oil inventories declined by 4.01MMbbls, compared to market expectations for a 2.2MMbbls draw. The changes in refined product stocks were also more positive, with gasoline and distillate fuel oil inventories declining by 1.31MMbbls and 2.95MMbbls respectively. These draws were bigger than the market was expecting, in fact, expectations for distillates were for a small stock build.

The EIA yesterday released its latest Short Term Energy Outlook, lowering its US crude oil output estimate for 2020 from 11.63MMbbls/d to 11.26MMbbls/d. The EIA nudged higher its production forecast for 2021, from 11.01MMbbls/d to 11.14MMbbls/d.

Finally, OPEC will release its monthly market report later today, which will include their production numbers for July, along with the group's outlook on demand for the remainder of this year and 2021. This will be followed by the IEA's monthly oil market report tomorrow, and the market will be closely watching the agency's demand estimates, given the concerns over a stalling in the demand recovery in recent weeks.

Metals

Increased risk appetite saw a big sell-off in the precious metals yesterday with gold falling by 5.7% while silver declined by almost 15%. A rally in US Treasury yields, also saw real yields rebound, which weighed on gold. Optimism over possible tax relief, further economic stimulus in the US, positive economic data elsewhere and news of a Russian Covid-19 vaccine appears to have prompted investors to pull money from safe havens and put these into riskier assets. ETF holdings of gold dropped for the third consecutive day falling by 155koz yesterday, taking the total decline over the last three days to 336koz

Base metals were largely flat, with Chinese credit growth unexpectedly slowing in July. Investors are perhaps in a wait-and-see mode, awaiting further economic stimulus and to see how US/China trade talks go before putting on further bullish bets.

As for lead, the latest data from Antaike shows that China's total refined lead output in the first seven months of the year decreased by 3% YoY, mainly due to a sharp contraction in secondary production earlier this year (primary +3.4% YoY; secondary -10.3% YoY). However, the production trend in July between primary and secondary saw a major reversal with growth in secondary lead production overtaking primary (primary -6.4% MoM; secondary +9.8% MoM). The current expectations are that secondary production will continue to grow, but are unlikely to maintain the strong growth seen in July since the supply of scrap lead-acid batteries will likely be a bottleneck. On the primary side, smelters are supposed to be incentivised to operate as close to capacity as possible, which could see primary production resume growth from August.

For zinc, data from Metal Bulletin shows that the physical premiums in Singapore softened to around US\$90/t, compared to US\$95/t a week ago, reflecting relatively softer demand in the physical market ex-China.

Agriculture

Brazil's National Agriculture Agency CONAB has revised higher its corn production estimate from 100.6mt to 102.1mt (+5.15 YoY) for 2019/20 season on better yields, though export estimates were left unchanged at around 34.5mt. The country's soybean exports estimates were also revised higher from 80 to 82mt on ample domestic stocks and healthy demand in the global market. A weaker Brazilian Real would have supported stronger export flows earlier in the year. However, with strong demand from China for Brazilian beans pushing up physical values, we are likely to see Chinese buyers turning increasingly to the US in the coming months for supply - over the last week we have already seen strong US soybean sales to China.

The latest data from UNICA shows that the CS Brazil sugarcane industry crushed 50.48mt of cane over the second half of July, up 1.15% YoY. However, given the strong allocation of cane to sugar production (rather than ethanol), sugar output over the period increased by 37.67% YoY to total 3.42mt. This takes the cumulative cane crush so far this season to 326.44mt, up 5.66% YoY, whilst cumulative sugar production totals 19.73mt so far, up 47.64% YoY.

Finally, the USDA is scheduled to release its latest WASDE report later today, and expectations are that the agency will revise higher their US production estimates for corn and soybeans for the 20/21 marketing year to 15.2b bushels and 4.26b bushels respectively (according to a Bloomberg survey). As a result, US ending stocks for both are expected to edge higher. Similarly, looking at the

global balance, expectations are that corn ending stocks will edge up to a little over 319mt, compared to 315mt in the July WASDE. For soybeans, ending stocks are expected to come in at 98mt vs. the 95.1mt seen in the July report.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	44.50	-1.09	-28.26	Spot Gold (US\$/oz)	1,911.9	-5.69	26.01
NYMEX WTI (US\$/bbl)	41.61	-0.79	-31.85	Spot Silver (US\$/oz)	24.8	-14.89	38.88
ICE Gasoil (US\$/t)	376	2.24	-36.49	LME Copper (US\$/t)	6,386	-0.16	3.43
NYMEX HO (Usc/g)	124	0.12	-38.94	LME Aluminium (US\$/t)	1,786	0.00	-1.33
Eurobob (US\$/t)	383	-0.70	-35.10	LME Zinc (US\$/t)	2,410	0.54	6.07
NYMEX RBOB (Usc/g)	120	-2.02	-29.06	LME Nickel (US\$/t)	14,350	0.45	2.32
NYMEX NG (US\$/mmbtu)	2.17	0.84	-0.82				
TTF Natural Gas (EUR/MWh)	7.42	-2.28	-38.46	CBOT Corn (Usc/bu)	312	0.32	-19.66
				CBOT Wheat (Usc/bu)	495	0.81	-11.41
API2 Coal (US\$/t)	51	-2.75	-12.02	CBOT Soybeans (Usc/bu)	878	0.17	-6.89
Newcastle Coal (US\$/t)	51	-2.94	-25.85	ICE No.11 Sugar (Usc/lb)	12.74	1.51	-5.07
SGX TSI Coking Coal (US\$/t)	113	0.00	-20.17	ICE Arabica (Usc/lb)	111	-1.11	-14.15
SGX Iron Ore 62% (US\$/t)	115	1.57	26.16	ICE London Cocoa (GBP/t)	1,678	-1.76	-7.75

Source: Bloomberg, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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