The Commodities Feed: Gold squeeze

Your daily roundup of commodity news and ING views

The World Gold Council expects banks to continue buying gold in 2024, given the persistent economic and geopolitical uncertainty against a backdrop of high inflation

Energy

Action taken by the US Fed, along with growing hopes of a stimulus package from the US benefitted risk assets yesterday, including oil, with NYMEX WTI settling almost 2.8% higher on the day. However clearly the fundamental outlook for the oil market remains bearish, given the weakening demand picture and expected surge in supply from the start of 2Q20. We still expect prices to trade lower from current levels. The deepening contango in the ICE Brent forward curve reflects the surplus environment, and the need for this surplus oil to be carried forward. The prompt ICE Brent time spread is trading at around US$2.50/bbl discount- levels seen briefly in 2015. The obvious risk to this view is that the current low price environment forces OPEC+ to re-introduce output cuts.

The low price environment is seeing producers already cutting back. In Canada, Suncor announced that it would shut one of its two trains at its 194Mbbls/d Fort Hills oil sands mine, and delay the start-up of its Mackay River project. These shutdowns shouldn't come as too much of a surprise when you consider that West Canada Select is now trading sub-US$9/bbl. Moving on, and Covid-19 is also having an impact in the North Sea. Ineos announced that it would delay maintenance work on the 600Mbbls/d Forties Pipeline System from June to at least August as a result of the outbreak. This development does not help with the significant oversupply environment already expected over 2Q20.

Finally, the API released US inventory numbers yesterday which showed that US crude oil inventories fell by 1.25MMbbls over the last week, whilst large draws of 2.62MMbbls and 1.9MMbbls were seen in gasoline and distillate fuel oil respectively. These draws might be a bit surprising given the current environment, however as we move into 2Q20 we would expect to see consistent builds in inventory. However, today, the more widely followed EIA weekly report will be released, and expectations are that they will report a 3MMbbls crude oil build, according to a Bloomberg survey.

Metals

Precious metals continued to soar, with palladium leading the gains, and surging as much as 16% to a high of US$1,994/Oz yesterday, with news of mass production shutdowns in South Africa. Joining the lockdown list, South Africa will introduce a 21-day nationwide shutdown from midnight on Thursday, which will bring to a halt mining operations in the country. The planned lockdown could reduce platinum supply by 4%, whilst palladium supplies could shrink by 2% for the current year.

Gold rallied for a third consecutive day yesterday. The EFP (Exchange For Physical), quoted as the spread between gold futures and London spot gold, soared to a historical high of US$70. Meanwhile, time spreads moved into a small backwardation. The suspension of some gold refineries and logistical disruptions have led to a tightening in supply of investment gold, and therefore the potential for issues with physical delivery. As a result shorts do appear to have covered their futures positions.

Base metal prices rebounded sharply yesterday, after the weak start earlier in the week. Reduced mine output and central bank action appears to have offered some short-term support. Copper dominated the rally, with LME copper settling almost 4% higher on the day. Meanwhile First Quantum Minerals has said that copper output at its Cobre Panama mine would ramp up at a slower-than-expected pace after a number of workers tested positive for the COVID-19 virus.

As for other producers, Rio Tinto will be reducing its Canadian aluminium output, and also halt its mining operations in South Africa until 16th April. Meanwhile Hindustan Zinc will stop operations until 31st March following the announced shutdown in India. Despite this, the cash/3M spread for all major metals continued to remain in contango, largely ignoring the near-term supply concerns and focusing more on demand destruction.

Finally, the latest numbers from the World Steel Association show that global steel output in February totalled 143.3mt, production was up 2.1% YoY. However, that was lower than the 151mt produced the previous month. Output in China fell to 75mt in February, compared to 80mt in January. The decline in the numbers was very much expected, and further declines in global production will not be a surprise given the number of country shutdowns we are seeing currently.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**27.15**	0.44	-58.86	Spot Gold (US$/oz)	**1,632.3**	5.09	7.58
NYMEX WTI (US$/bbl)	**24.01**	2.78	-60.68	Spot Silver (US$/oz)	**14.3**	7.66	-20.01
ICE Gasoil (US$/t)	**303**	6.03	-50.61	LME Copper (US$/t)	**4,814**	3.97	-22.03
NYMEX HO (Usc/g)	**108**	6.32	-46.74	LME Aluminium (US$/t)	**1,548**	-0.86	-14.50
Eurobob (US$/t)	**258**	1.94	-55.26	LME Zinc (US$/t)	**1,816**	-0.16	-20.09
NYMEX RBOB (Usc/g)	**44**	7.75	-73.87	LME Nickel (US$/t)	**11,258**	3.47	-19.73
NYMEX NG (US$/mmbtu)	**1.65**	3.18	-24.49				
TTF Natural Gas (EUR/MWh)	**7.91**	0.75	-34.38	CBOT Corn (Usc/bu)	**347**	1.09	-10.44
				CBOT Wheat (Usc/bu)	**562**	-0.18	0.49
API2 Coal (US$/t)	**53**	5.88	-2.66	CBOT Soybeans (Usc/bu)	**887**	0.31	-5.97
Newcastle Coal (US$/t)	**67**	3.40	-3.19	ICE No.11 Sugar (Usc/lb)	**11.27**	2.08	-16.02
SGX TSI Coking Coal (US$/t)	**149**	0.00	5.30	ICE Arabica (USc/lb)	**126**	3.59	-3.16
SGX Iron Ore 62% (US$/t)	**82.55**	5.25	-9.60	ICE London Cocoa (GBP/t)	**1,848**	0.11	1.59

Source: Bloomberg, ING Research

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

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