The Commodities Feed: Growing pains

Your daily roundup of commodity news and ING views

Source: iStock

Energy

The pressure on the oil market has been relentless, with ICE Brent settling below US$30/bbl for the first time since January 2016. Risks remain to the downside as we move into 2Q20. The demand picture continues to deteriorate as more countries implement shutdowns and put in place travel restrictions which have seen airlines cut capacity. Meanwhile the pickup in oil supply from April following the breakdown of OPEC+ talks does mean that these weak prices are likely to linger for quite a while longer. Lower prices are clearly going to hurt oil exporting countries, and the Iraqis have already requested that OPEC+ hold an urgent meeting. However, with the Saudis and Russians in a fierce battle for market share, it is difficult to see any quick resolution on this front. That said, the only thing that will likely bring them back to the discussion table is even lower prices.

Another country to keep an eye on is Libya, where output has come to a virtual standstill with the ongoing export blockade. Latest numbers from the National Oil Corporation show that the country was pumping a little over 91Mbbls/d as of 15 March. A lifting of the export blockade, would bring 1MMbbls/d back onto the market, only increasing the global glut.

Despite the weaker crude differentials that we have seen as the price war picks up, refining margins have come under renewed pressure. In Singapore, refinery margins are back in negative territory, whilst in NW Europe they are approaching the lows that were seen towards the end of

February. A rally in tanker rates has pressured margins, whilst in Europe a collapse in Eurobob cracks has only added further pressure. Continued margin weakness will likely start to see further cuts in refinery run rates.

The surge in crude supply outside of the US has meant that the WTI/Brent discount has narrowed significantly in recent days, reaching a discount of as little as US$0.77/bbl earlier this week. However now with oil in Houston trading at a discount to Cushing this will likely put some additional pressure on WTI. This is starting to be reflected in the WTI/Brent spread, with the discount widening out to over US$1.60/bbl once again. Sticking with North America, West Canada Select (WCS) prices are trading at a little over US$12/bbl, even lower than the levels seen when WCS was trading at a US$50/bbl discount to WTI towards the end of 2018.Currently the discount is around US$15/bbl. Given the pressure on prices, the Alberta government has said that it is willing to cut output even more if needed.

Metals

Major miners across the globe have stepped forward and reduced operations in order to contain the Covid-19 outbreak, which could offer some relief to a market which has been driven by demand factors recently. Peru, a major copper and silver producer, declared a state of emergency for 15 days and ordered a nationwide lockdown to contain the virus in the country. Following the announcement, miners in the nation, including McMoRan Inc and Newmont Corp, are reducing operations. In Canada, Vale's Voisey Bay mine is set to enter temporary maintenance, while in Mongolia Rio Tinto announced a delay to its US$5.3B copper mine project, following restrictions imposed by the government in response to the Covid-19 outbreak.

Meanwhile, data released by China's National Bureau of Statistics shows that the country's copper output grew by 2.8% YoY to reach 1.53mt over the first two months of the year. The rise in output came despite the virus outbreak and weaker demand outlook. In other metals, zinc output rose drastically by 13% YoY to 1.04mt, whilst aluminium output expanded by 2.4% YoY to 5.8mt over the period. The standout though was lead, where output in the first two months fell sharply, by 10% YoY to 722kt.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**28.73**	-4.39	-56.47	Spot Gold (US$/oz)	**1,528.3**	0.94	0.73
NYMEX WTI (US$/bbl)	**26.95**	-6.10	-55.86	Spot Silver (US$/oz)	**12.6**	-2.29	-29.34
ICE Gasoil (US$/t)	**300**	-2.04	-51.14	LME Copper (US$/t)	**5,144**	-2.77	-16.68
NYMEX HO (Usc/g)	**104**	-1.04	-48.94	LME Aluminium (US$/t)	**1,652**	-1.40	-8.76
Eurobob (US$/t)	**280**	2.36	-51.57	LME Zinc (US$/t)	**1,871**	-3.66	-17.65
NYMEX RBOB (Usc/g)	**71**	3.12	-58.10	LME Nickel (US$/t)	**11,780**	-1.30	-16.01
NYMEX NG (US$/mmbtu)	**1.73**	-4.74	-21.01				
TTF Natural Gas (EUR/MWh)	**8.47**	-3.10	-29.72	CBOT Corn (Usc/bu)	**344**	-3.03	-11.28
				CBOT Wheat (Usc/bu)	**499**	0.25	-10.65
API2 Coal (US$/t)	**50**	2.16	-9.07	CBOT Soybeans (Usc/bu)	**824**	0.30	-12.59
Newcastle Coal (US$/t)	**66**	0.30	-3.98	ICE No.11 Sugar (Usc/lb)	**10.89**	-1.80	-18.85
SGX TSI Coking Coal (US$/t)	**159**	-0.48	12.46	ICE Arabica (USc/lb)	**103**	-0.96	-20.66
SGX Iron Ore 62% (US$/t)	**87.85**	0.46	-3.80	ICE London Cocoa (GBP/t)	**1,853**	7.54	1.87

Source: Bloomberg, ING Research

Author

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

Disclaimer