

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 91Mbbbls/d as of 15 March. A lifting of the export blockade, would bring 1MMbbbls/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

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.