The Commodities Feed: Growing tensions

Your daily roundup of commodity news and ING views

Energy

Oil strength: The oil market saw quite the rally yesterday, with ICE Brent settling more than 4% higher on the day, whilst NYMEX WTI settled up more than 5%. The more dovish tone taken by the US Federal Reserve on Wednesday certainly helped, as was the case for the commodities complex as a whole. However, the key catalyst for yesterday's move was growing tension in the Middle East, with Iran having shot down a US drone. Overnight, the New York Times reported that President Trump had approved strikes against Iran, only to pull back from the decision on Thursday night. We continue to believe amid this growing tension in the Middle East, along with expectations of an OPEC+ deal extension, that oil prices will trend higher over the second half of the year. A weaker US dollar, with a more dovish Fed only adds further support.

Turning to Russia, and the issue of contaminated oil continues to linger, with Russian pipeline operator Transneft reporting that oil flows to Poland were temporarily suspended on Wednesday evening, after excess levels of organic chlorides were found once again. However, flows resumed once again on Thursday morning.

Natural gas weakness: While oil rallied yesterday, Henry Hub natural gas came under further pressure, down 4% on the day. A larger than expected inventory build was the driver, with the EIA reporting that natural gas inventories increased by 115 Bcf, compared to expectations of around a 104 Bcf increase. Still, total natural gas inventories stand at 2.2 Tcf, which is somewhat lower than the five-year average of around 2.39 Tcf for this stage of the year.

It's not just the US market which is under pressure, the European gas market continues to trend lower, with TTF breaking below the lows seen back in 2016. Strong LNG inflows continue to pressure the market, with EU gas inventories at least at a five-year seasonal high of 743 TWh. This weakness in gas is also having an impact on other commodities, with coal under pressure. The general strength in EU carbon prices only adds further pressure to the coal market.

Metals

Chile mine strike: Labour unions at Codelco's Chuquicamata mine have advised striking workers to vote against the latest wage offer by management when it comes to voting this Saturday. The unions termed the latest offer as 'irresponsible' and hinted that the current industrial action may go on until their demands are met. The strike has not resulted in a force majeure on supplies yet, but this cannot be ruled out in the case of prolonged action. Meanwhile, also a more constructive sign for the market is more recent strength we have seen in refined copper premiums in China, which have recovered from a two-year low of US$47/t in mid-May to US$59.5/t currently.

Gold run continues: Investors and speculators continued to pile into gold, with prices up more than 4% at one stage over the week, and in fact the market briefly traded above the $1,400/oz level this morning. Dovish comments from the Fed and market uncertainty continues to support the prevailing bullish sentiment. The rally in gold has seen the gold/silver price ratio increase to 90.8 this week, levels last seen back in 1993. Given broader macro concerns, there is more concern over the demand outlook for silver, given its heavier industrial use.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**64.45**	4.25	19.80
NYMEX WTI (US$/bbl)	**56.65**	5.38	24.75
ICE Gasoil (US$/t)	**580**	3.44	13.46
NYMEX HO (Usc/g)	**188**	3.00	12.11
Eurobob (US$/t)	**594**	0.94	23.90
NYMEX RBOB (Usc/g)	**179**	2.93	34.95
NYMEX NG (US$/mmbtu)	**2.19**	-4.00	-25.68
TTF Natural Gas (EUR/MWh)	**10.15**	-3.20	-53.83
API2 Coal (US$/t)	**52**	1.65	-38.82
Newcastle Coal (US$/t)	**70**	1.31	-31.46
SGX TSI Coking Coal (US$/t)	**193**	-0.52	-8.96
SGX Iron Ore 62% (US$/t)	**112.05**	3.72	61.29

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,388.4**	2.06	8.26
Spot Silver (US$/oz)	**15.4**	1.76	-0.46
LME Copper (US$/t)	**5,973**	0.93	0.13
LME Aluminium (US$/t)	**1,781**	-0.17	-3.52
LME Zinc (US$/t)	**2,468**	-0.40	0.04
LME Nickel (US$/t)	**12,300**	1.74	15.06
CBOT Corn (Usc/bu)	**450**	2.04	20.00
CBOT Wheat (Usc/bu)	**527**	0.81	4.62
CBOT Soybeans (Usc/bu)	**916**	1.36	3.74
ICE No.11 Sugar (Usc/lb)	**12.43**	-0.56	3.33
ICE Arabica (USc/lb)	**101**	4.99	-0.79
ICE London Cocoa (GBP/t)	**1,794**	-2.39	1.59

Source: Bloomberg, ING Research

Author

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