

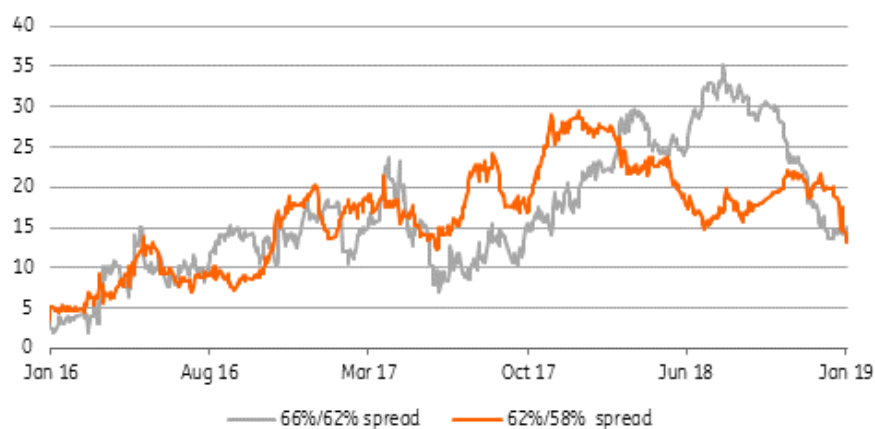
# The Commodities Feed: Iron ore quality premium weakens

Your daily roundup of commodity news and ING views



Source: Flickr

## Iron ore quality premium weakens further (US\$/t)



Source: Bloomberg, ING Research

## Energy

**US crude oil inventories:** The EIA surprised the market yesterday, reporting that US crude oil inventories increased by 7.97MMbbls over the last week, compared to market expectations for a 750Mbbls draw, and also larger than the 6.55MMbbls build the API reported the previous day. Refinery utilisation rates fell by 1.7% over the week to 92.9%, crude oil imports increased by 664Mbbls/d to average 8.19MMbbls/d, whilst crude oil exports fell by 931Mbbls/d to 2.04MMbbls/d over the week. On the refined product side, gasoline inventories increased by 4.05MMbbls, not too far from market expectations of a 3.64MMbbls build, while distillate fuel oil inventories declined by 617Mbbls, compared to expectations of a 2.57MMbbls build.

**Canadian output cuts:** Oil producers in Alberta, Canada appear to be cutting output by more than mandated 325Mbbls/d. According to media reports, over January the industry has, in fact, cut production by somewhere in the region of 600-650Mbbls/d. Larger-than-expected cuts would help to explain the significant rally in WCS differentials, with the WCS/WTI discount narrowing from US\$50/bbl in October to as little as US\$6.95/bbl earlier this year.

## Metals

**Iron ore quality premium falls:** The premium for 62% iron ore fines over 58% iron ore fines has declined to US\$13/t- its lowest level since late June 2017. Meanwhile, 66% iron ore trades at a premium of US\$15/t over 62% fines, again near one-year lows. Weaker steel margins are likely to have weighed heavily on the quality premium, whilst less strict capacity cuts in China this winter also likely reduced the pressure on Chinese mills to use higher quality iron ore. Elsewhere, Cyclone Riley is set to hit Australia's Western shores over the weekend which could lead to some short-term disruptions in iron ore shipments from the Pilbara region.

**Palladium weaker:** Having traded to a high of almost US\$1,400/oz last week, palladium has lost more than 8% since then, likely on the back of a large amount of profit-taking following the previous move higher- open interest in palladium has fallen by 5% since the start of last week. Unfortunately, as a result of the US government shutdown, the CFTC has not published a Commitment of Traders report since December. The fundamental outlook for palladium remains constructive but the risk remains that automakers substitute palladium with platinum, with the ratio currently at 1.65, well above historical averages.

## Agriculture

**Global wheat output:** The International Grains Council (IGC) revised higher its estimate for global wheat production in the 2018/19 season by 8mt to 737mt. This increase was largely driven by Russia and India. The council increased its estimate for Russia from 69.5mt to 71.6mt, whilst the Indian output estimate was increased from 95.5mt to 99.7mt. Looking ahead to next season, the IGC expects global wheat output to increase to 751mt as a result of both larger area and improved yields.

## Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	61.09	-0.08		13.55		Comex Silver (US\$/oz)	15.3	-0.52		-1.54	
NYMEX WTI (US\$/bbl)	53.13	0.97		17.00		LME Copper (US\$/t)	5,922	-0.50		-0.72	
ICE Gasoil (US\$/t)	567	-0.13		11.06		LME Aluminium (US\$/t)	1,891	-0.97		2.41	
NYMEX HO (Usc/g)	189	-0.16		12.18		LME Zinc (US\$/t)	2,640	0.76		7.01	
Eurobob (US\$/t)	488	0.03		1.75		LME Nickel (US\$/t)	11,770	0.60		10.10	
NYMEX RBOB (Usc/g)	139	0.14		4.83							
NYMEX NG (US\$/mmbtu)	3.10	3.99		5.41		CBOT Corn (Usc/bu)	377	-0.46		0.53	
						CBOT Wheat (Usc/bu)	522	-0.86		3.63	
API2 Coal (US\$/t)	83	-2.25		-4.18		CBOT Soybeans (Usc/bu)	916	0.11		3.80	
NYMEX Coking Coal (US\$/t)	195	0.00		-14.44		ICE No.11 Sugar (Usc/lb)	12.98	0.08		7.90	
						ICE Arabica (Usc/lb)	105	1.84		3.39	
						ICE London Cocoa (GBP/t)	1,633	0.62		-7.53	

Source: Bloomberg, ING Research

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