

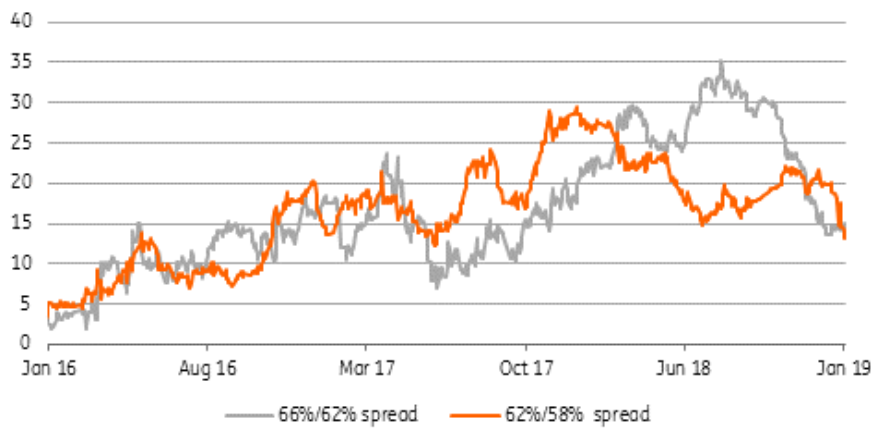
# The Commodities Feed: Iron ore quality premium weakens

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 750Mbbbls 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 664Mbbbls/d to average 8.19MMbbls/d, whilst crude oil exports fell by 931Mbbbls/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 617Mbbbls, 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 325Mbbbls/d. According to media reports, over January the industry has, in fact, cut production by somewhere in the region of 600-650Mbbbls/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

## Author

### Warren Patterson

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto: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](http://www.ing.com).