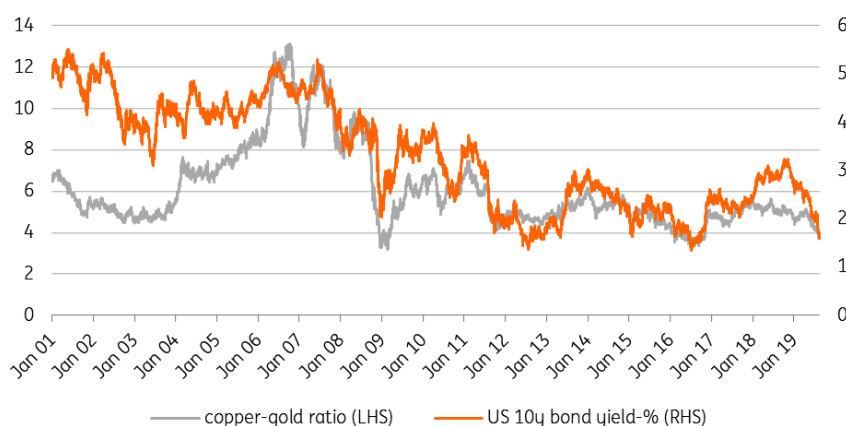


The Commodities Feed: Macro fears and safe haven appeal

Your daily roundup of commodity news and ING views



Copper/gold ratio vs 10 yr US treasury yield



Source: Bloomberg, ING Research

Energy

Macro sell-off: The oil market could not escape the broader macro pressure yesterday, with ICE Brent settling almost 3% lower on the day. Once again yesterday's price action clearly shows that the market is more concerned over demand developments, rather than those on the supply side, and yesterday there were plenty of signals to raise concerns. Numbers out of China showed that industrial output growth in July was the weakest in 17 years, while in Europe, numbers from Germany showed that the economy shrank by 0.1% QoQ in the second quarter. Finally the inversion of US and UK yield curves yesterday only adds to fears of a possible recession.

US oil inventories: EIA numbers released yesterday failed to offer any support to the oil market, with US crude oil inventories surprisingly increasing by 1.58MMbbls, as opposed to market expectations for a draw of around 2.5MMbbls. Although the build was not as large as the 3.7MMbbls increase the API reported the previous day. The key drivers behind this build was a reduction in refinery utilisation rates over the week, which fell by 1.6 percentage points to 94.8%, and led to crude oil inputs falling by 475Mbbls/d over the week. Whilst the other factor was an increase in crude oil imports, which increased by 566Mbbls/d to average 7.7MMbbls/d over the week.

On the more constructive side, gasoline inventories fell by 1.41MMbbls over the week, driven by the lower refinery utilisation rate, whilst gasoline demand over the week also hit a record 9.93MMbbls/d over the week.

Metals

Recession fears & metal markets: A series of disappointing economic data from Germany and Eurozone as a whole, as well as China which came out on Wednesday has triggered fresh worries of a global recession, which saw industrial metal prices all close in the red on the LME. In particular, weaker China industrial data does not bode well for most industrial metals, given the heavy weighting of the country's demand, along with the fact that it has been a key driver in global demand growth in the past.

As mentioned previously, the US Treasury yield curve is also flashing warning lights, as we have seen an inversion of the 2-10 year part of the curve, the first time this has happened since 2007. The copper to gold ratio tumbled again in tandem with US Treasury yields. Copper is pricing in the worries over industrial demand amid global growth fears and that is further fuelling gold's safe-haven demand. ETF holdings in gold increased by 290koz yesterday, taking total holdings to almost 77.4moz- levels last seen back in early 2013.

Given the growing uncertainty over the global economy, it is hard to see a change in the current trend of a move towards precious metals. Although moving forward, we believe silver could perform relatively better than gold, with the gold/silver ratio suggesting that silver is undervalued.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	59.48	-2.97	10.56	Spot Gold (US\$/oz)	1,516.4	0.99	18.24
NYMEX WTI (US\$/bbl)	55.23	-3.27	21.63	Spot Silver (US\$/oz)	17.2	1.48	11.11
ICE Gasoil (US\$/t)	561	-2.60	9.84	LME Copper (US\$/t)	5,765	-1.09	-3.35
NYMEX HO (Usc/g)	184	-1.79	9.69	LME Aluminium (US\$/t)	1,775	-0.56	-3.85
Eurobob (US\$/t)	594	-1.78	23.82	LME Zinc (US\$/t)	2,256	-2.72	-8.55
NYMEX RBOB (Usc/g)	168	-3.49	26.60	LME Nickel (US\$/t)	15,970	0.28	49.39
NYMEX NG (US\$/mmbtu)	2.14	-0.19	-27.11	CBOT Corn (Usc/bu)	359	-1.91	-4.27
TTF Natural Gas (EUR/MWh)	11.18	-5.73	-49.14	CBOT Wheat (Usc/bu)	474	0.37	-5.86
API2 Coal (US\$/t)	60	0.00	-30.23	CBOT Soybeans (Usc/bu)	861	-1.26	-2.44
Newcastle Coal (US\$/t)	69	-1.86	-32.35	ICE No.11 Sugar (Usc/lb)	11.61	-0.94	-3.49
SGX TSI Coking Coal (US\$/t)	157	1.05	-26.07	ICE Arabica (Usc/lb)	94	-1.97	-7.27
SGX Iron Ore 62% (US\$/t)	88.35	1.79	27.18	ICE London Cocoa (GBP/t)	1,668	-0.95	-5.55

Source: Bloomberg, ING Research

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