

The Commodities Feed: Market shrugs off large oil build

Your daily roundup of commodity news and ING views



Source: Shutterstock

US refinery utilisation rate (%)



Source: EIA, ING Research

Energy

EIA weekly report: The EIA released its weekly oil report yesterday, which was more aligned with the big build that the API reported the previous day. The EIA reported that commercial US crude oil inventories increased by 9.28MMbbls over the last week- the largest weekly build seen since April. This was significantly higher than the 3MMbbls the market was expecting. Despite this large build, the market settled higher yesterday, with draws across all refined products.

The key driver behind the large crude draw was seasonal refinery turnarounds, with refinery run rates falling by 2.6 percentage points over the week to average 83.1%, which is the lowest levels we have seen since September 2017. As a result of this decline, we saw gasoline stocks falling by 2.56MMbbls, while distillate fuel oil inventories declined by 3.82MMbbls. Distillate fuel oil stocks in the US are now below the 5-year low, and with middle distillate demand set to only increase in the coming months, with IMO 2020 regulation, we continue to hold a constructive view towards middle distillate cracks.

ICE Brent spread strength: The ICE Brent Dec/Jan spread has seen quite the recovery this week, with the spread trading from an intraday low of just US\$0.07/bbl on Tuesday, to a backwardation of over US\$0.40/bbl yesterday. We see a couple of reasons behind the recovery. Firstly, the Buzzard oilfield was shut once again on the 16th October; the 150Mbbls/d field is the largest contributor to the Forties crude stream. Secondly, the tanker freight market has continued to weaken this week (following a strong rally earlier in the month), and this is likely to have eased some earlier concerns that the strong freight market would weigh on prompt crude demand from refineries.

Metals

Palladium strength: Palladium prices made a fresh high of US\$1,769/oz earlier this week, leaving the market 5% higher so far this month, and up 40% YTD, with continued fears of large supply deficits. Increasing environmental scrutiny of vehicle emissions in China and Europe has clearly been constructive for palladium demand. Meanwhile, supply has been unable to keep up with this strong demand growth. One of the major supply sources over the past few years has been ETF holdings, which have declined significantly- they have fallen from around 3mOz back in 2015 to just 600kOz currently.

China steel output: Latest data from the National Bureau of Statistics shows that Chinese steel output declined by 5.1% MoM to 82.77mt in September, which is the lowest monthly production number seen since March. Steel margins in China have come under pressure in recent months, which has not helped, while environmental cuts over September would have likely weighed on production further. Despite this, output this year is set to reach record levels, with cumulative production for the first nine months of the year standing at almost 748mt, up 8.4% YoY.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	59.91	0.82	11.36	Spot Gold (US\$/oz)	1,491.9	0.12	16.33
NYMEX WTI (US\$/bbl)	53.93	1.07	18.76	Spot Silver (US\$/oz)	17.5	0.85	13.26
ICE Gasoil (US\$/t)	584	-0.64	14.34	LME Copper (US\$/t)	5,739	0.16	-3.79
NYMEX HO (Usc/g)	195	0.28	15.90	LME Aluminium (US\$/t)	1,727	-0.06	-6.45
Eurobob (US\$/t)	562	0.24	17.13	LME Zinc (US\$/t)	2,439	0.21	-1.13
NYMEX RBOB (Usc/g)	162	-0.14	22.57	LME Nickel (US\$/t)	16,270	-1.09	52.20
NYMEX NG (US\$/mmbtu)	2.32	0.65	-21.16	CBOT Corn (Usc/bu)	395	0.77	5.27
TTF Natural Gas (EUR/MWh)	16.03	-0.29	-27.09	CBOT Wheat (Usc/bu)	526	2.39	4.42
API2 Coal (US\$/t)	63	-0.55	-25.09	CBOT Soybeans (Usc/bu)	932	0.38	5.55
Newcastle Coal (US\$/t)	69	-0.07	-32.30	ICE No.11 Sugar (Usc/lb)	12.24	-0.89	1.75
SGX TSI Coking Coal (US\$/t)	156	-0.55	-26.22	ICE Arabica (Usc/lb)	93	-0.69	-8.79
SGX Iron Ore 62% (US\$/t)	82.81	-0.46	19.20	ICE London Cocoa (GBP/t)	1,909	-0.68	8.10

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.