The Commodities Feed: Market shrugs off Libya disruptions

Your daily roundup of commodity news and ING views

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Energy

Despite supply disruptions from Libya, which have the potential to swing the market into deficit over the first quarter, the oil market settled just over 0.5% higher yesterday, giving back most of the gains made in the early morning trading session. Yesterday's price action highlights once again that market concerns over supply-risks remain fairly short-lived in the current environment. This was evident with the attacks on Saudi infrastructure last year, the US and Iranian hostility at the start of the year, and now with disrupted oil flows from Libya. Market participants appear to fret less about supply disruptions in the Middle East or at least the risk of disruptions thanks to the impressive growth we have seen in US output over recent years. Another factor reassuring the market would be OPEC spare capacity, which stands in excess of 3MMbbls/d, of which the bulk sits in Saudi Arabia. That said, given the concentration risk around Saudi spare capacity, it still calls into question why the market was so quick to shrug off disruptions from Saudi Arabia last year, and the risk of potential disruptions in the Kingdom earlier this year.

According to a Bloomberg report, the OPEC+ Joint Technical Committee assessed the group's compliance with production cuts over December at 145%, which was a 6 percentage point increase from November. OPEC members, and in particular Saudi Arabia continue to over comply, with the group's compliance coming in at 168% for the month, while compliance of non-OPEC members came in at just 95%. Meanwhile, the next OPEC+ meeting will take place in March, rather than be delayed until June according to RIA news agency, citing OPEC's secretary-general. This will give the market more certainty around OPEC+ policy as we move into the second quarter.

Turning to Canada, Alberta's Premier has said that output caps in the province will remain unchanged for the first quarter of 2020, with the cap for February left at 3.81MMbbls/d. West Canada Select differentials also suggest that there should be no easing in Alberta cuts, with WCS trading at a discount of US$24.50/bbl to WTI, down from a discount of US$12.75/bbl at the start of 4Q19. The Canadian oil industry continues to struggle with high inventories, whilst recent freezing cold weather has only created another challenge for producers.

Metals

It was a relatively quiet day for the base metals complex yesterday, although, for copper, a stronger USD put some downward pressure on the metal, while the market largely ignored yet another fall in LME inventories. Following the phase-one trade deal signing, there seems to be a lack of direction in the short term, as the market awaits signs of a positive impact on demand. However, timing is not great, with the world's largest copper consumer (China) wrapping up for Lunar New Year Holidays, participation in Chinese markets will be reduced over the coming week. Turning to aluminium, and LME warehouses saw another fairly hefty outflow yesterday. Even though the outright price has not reacted much, the cash/3M spread has strengthened - in early January the spread was trading at a contango of more than US$30/t, this has narrowed to a contango of just US$6.50/t as of yesterday.

Meanwhile palladium continues to make fresh highs, hitting a record US$2,577.27/oz yesterday. This strength is driven by a combination of strong fundamentals, though the bullish sentiment around it does seem a bit self-fulfilling, with concerns over the metal's availability in the physical market. There is a lack of evidence to prove any demand destruction through substitution, and recent price action appears to confirm this. Bloomberg reported that one-week lease rates jumped to 32.56% on Friday (the most significant jump in the past year) as investors rush to secure supplies for immediate delivery.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**65.20**	0.54	-1.21	Spot Gold (US$/oz)	**1,560.8**	0.23	2.87
NYMEX WTI (US$/bbl)	**N/A**	N/A	N/A	Spot Silver (US$/oz)	**18.1**	0.20	1.26
ICE Gasoil (US$/t)	**577**	1.41	-6.07	LME Copper (US$/t)	**6,259**	-0.22	1.38
NYMEX HO (Usc/g)	**N/A**	N/A	N/A	LME Aluminium (US$/t)	**1,812**	0.39	0.11
Eurobob (US$/t)	**N/A**	N/A	N/A	LME Zinc (US$/t)	**2,444**	0.60	7.57
NYMEX RBOB (Usc/g)	**N/A**	N/A	N/A	LME Nickel (US$/t)	**14,020**	0.79	-0.04
NYMEX NG (US$/mmbtu)	**N/A**	N/A	N/A				
TTF Natural Gas (EUR/MWh)	**10.57**	-3.32	-12.32	CBOT Corn (Usc/bu)	**N/A**	N/A	N/A
				CBOT Wheat (Usc/bu)	**N/A**	N/A	N/A
API2 Coal (US$/t)	**49**	-2.00	-9.16	CBOT Soybeans (Usc/bu)	**N/A**	N/A	N/A
Newcastle Coal (US$/t)	**71**	-0.14	3.40	ICE No.11 Sugar (Usc/lb)	**N/A**	N/A	N/A
SGX TSI Coking Coal (US$/t)	**153**	-0.32	8.18	ICE Arabica (USc/lb)	**N/A**	N/A	N/A
SGX Iron Ore 62% (US$/t)	**94.54**	-0.03	3.53	ICE London Cocoa (GBP/t)	**1,999**	-0.20	9.90

Source: Bloomberg, ING Research

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