

The Commodities Feed: Negative WTI oil

Your daily roundup of commodity news and ING views



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Energy

It was an extraordinary day for oil markets yesterday, with the NYMEX WTI May contract trading into negative territory, and settling at -US\$37.63/bbl. The May contract is set to expire today, so the bulk of open interest and volume is already in the June contract, which still settled above US\$20/bbl. However, the sell-off in the soon-to-expire May contract does still shed some light on the state of the physical oil market. Given the extreme demand destruction we are seeing in the market at the moment, storage is filling up quickly. Any longs left in the physically deliverable WTI May contract will need to have storage booked, and clearly there were some who did not, and who were willing to pay any price to exit their long positions.

A key question is whether we could see a repeat of this with the June expiry next month. It is likely that storage this time next month will be even more of an issue, given the surplus environment, and so in the absence of a meaningful demand recovery, negative prices could return for June. Another factor which could add further downward pressure to the June contract as we approach its expiry is index rolling. Retail investors have piled into oil ETFs at these lower prices, and so these ETFs hold a larger than usual share of the June contract open interest. These long positions will need to be rolled into the July contract ahead of expiry, putting further selling pressure on the June contract.

Negative prices will also raise the topic of mandated production cuts in the US. The Texas Railroad Commission is set to meet today, after their meeting last week. There is the potential that they vote in favour of production cuts for producers in the state today, which if it is the case, would provide some relief to the market. Clearly given the more recent pressure on prices, those in favour of production cuts will be even more vocal.

Metals

The metals complex opened higher in London yesterday following China's move to cut the 1Y Loan Prime Rate (LPR) by 20bps to 3.85%. But as the day progressed, it became more of a mixed bag. LME nickel managed to settle more than 3.9% higher on the day, with prices reaching an intraday high US\$12,535/t at one stage, a six-week high. Adding to supply disruptions, Brazilian miner, Vale, trimmed its 2020 production forecast for nickel to 180kt-195kt tonnes from 200kt-210kt. Meanwhile, there are positive cues emerging from the Chinese domestic stainless steel sector, where the average stainless steel margin on a cash basis has flipped into positive territory. Stainless steel inventories have declined by over 13% over the last two weeks, as we see a replenishment in stocks, on expectations of a demand recovery.

Turning to Aluminium, LME inventories grew by almost 42kt yesterday, taking total inventories to a little over 1.3mt - levels last seen in January. The LME cash/3m spread remains in a deep contango of US\$38.90/t, reflecting ample supply currently. Spot premia in major regions have also tumbled to reflect weaker short-term demand in the physical market. Finally, looking at copper, and according to Reuters, Glencore has reversed its plan to shut the Mopani copper mine in Zambia, after encountering backlash from the government.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	25.57	-8.94	-61.26	Spot Gold (US\$/oz)	1,695.7	0.76	11.76
NYMEX WTI (US\$/bbl)	-37.63	-305.97	-161.63	Spot Silver (US\$/oz)	15.3	0.92	-14.20
ICE Gasoil (US\$/t)	262	-4.99	-57.37	LME Copper (US\$/t)	5,184	-0.53	-16.04
NYMEX HO (Usc/g)	89	-7.16	-56.23	LME Aluminium (US\$/t)	1,503	-0.27	-16.96
Eurobob (US\$/t)	168	-7.96	-70.94	LME Zinc (US\$/t)	1,947	-0.56	-14.30
NYMEX RBOB (Usc/g)	67	-5.97	-60.64	LME Nickel (US\$/t)	12,514	3.92	-10.77
NYMEX NG (US\$/mmbtu)	1.92	9.75	-12.11	CBOT Corn (Usc/bu)	314	-2.48	-18.96
TTF Natural Gas (EUR/MWh)	6.62	-5.38	-45.08	CBOT Wheat (Usc/bu)	549	2.86	-1.79
API2 Coal (US\$/t)	47	-1.69	-17.58	CBOT Soybeans (Usc/bu)	827	-0.72	-12.35
Newcastle Coal (US\$/t)	55	-2.66	-20.64	ICE No.11 Sugar (Usc/lb)	10.06	-2.99	-25.04
SGX TSI Coking Coal (US\$/t)	127	-2.03	-9.94	ICE Arabica (Usc/lb)	114	-2.07	-12.37
SGX Iron Ore 62% (US\$/t)	83.91	1.00	-8.11	ICE London Cocoa (GBP/t)	1,895	0.91	4.18

Source: Bloomberg, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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