

The Commodities Feed: Oil plunges

Your daily roundup of commodity news and ING views



Energy

Downward pressure on oil has persisted this week, with ICE Brent nearing the US\$60/bbl mark, after settling almost 6% lower yesterday. There doesn't appear to be a specific catalyst for the move lower. Instead, the weakness in the physical market finally appears to have made its way through to the paper market. An increase in Covid-19 cases in certain regions also does little to help confidence at the moment, raising concerns over the demand outlook once again.

It is not just the flat price where we have seen big moves. The prompt ICE Brent timespread has flipped back into contango, trading to its lowest levels this year. The backwardation in the 12-month spread has also weakened considerably in recent weeks, with the spread trading at a little under US\$2.40/bbl at the moment, compared to more than US\$6/bbl earlier this month. Weakness in the structure suggests that the physical market is not that tight.

However, speculative liquidation would have likely exaggerated the weakness in the flat price and spreads, much like speculative buying previously did with the move higher in the market. Speculators have held a sizeable long in oil, but with demand concerns resurfacing, speculators have become increasingly nervous. Weakness in the forward curve also makes oil less attractive for speculators, with a lower roll yield on offer, and in fact a negative yield now in the prompt spread.

We continue to hold a constructive outlook for the market in the medium term, with inventories set to continue declining as we move through the year. In addition, if for any reason the market continues to weaken as we move towards the end of the month, OPEC+ would likely take action to support the market when they meet on 1 April. Expectations had been for an easing in cuts, however, if this weakness persists we are more likely to see a rollover of cuts once again.

Metals

Safe-haven flows into the US dollar weighed heavily on the metals complex. LME aluminium led the losses, falling by more than 2% during the London session on the back of rumours that the Chinese State Reserve Bureau (SRB) was considering selling 500kt aluminium. Copper briefly tumbled to below US\$9,000/t, as exchange copper stocks continue to climb from multi-year lows.

The LME spread tightness has eased, with the cash/3M spread plunging to nearly flat as of yesterday compared to a backwardation of US\$62/t at the end of February.

Turning to lead, as part of efforts to streamline safety standards for electric vehicles, China's Ministry of Industry and Information Technology (MIIT) is to ban the use of lead-acid batteries (LABs) from low-speed battery electric vehicles (BEVs) from September. The move will cast a shadow over the demand outlook for lead in the medium to longer term.

Finally, the latest data from the International Lead and Zinc Study Group (ILZSG) shows that the global zinc market remained in a surplus of just 12kt in January, compared to a surplus of 66kt during the same period last year. Total production rose 2.6% YoY to 1.19mt, whilst total consumption increased 7.7% YoY to 1.18mt in the first month of the year. As for lead, total production rose 7.1% YoY to 1mt, while consumption jumped 9.4% YoY to 1.02mt in January. The lead market encountered a supply deficit of 22kt in the first month of the year, compared to a largely balanced market during the same period last year.

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 <http://www.ing.com>.