

# The Commodities Feed: Oil strength continues

Your daily roundup of commodity news and ING views



Source: iStock

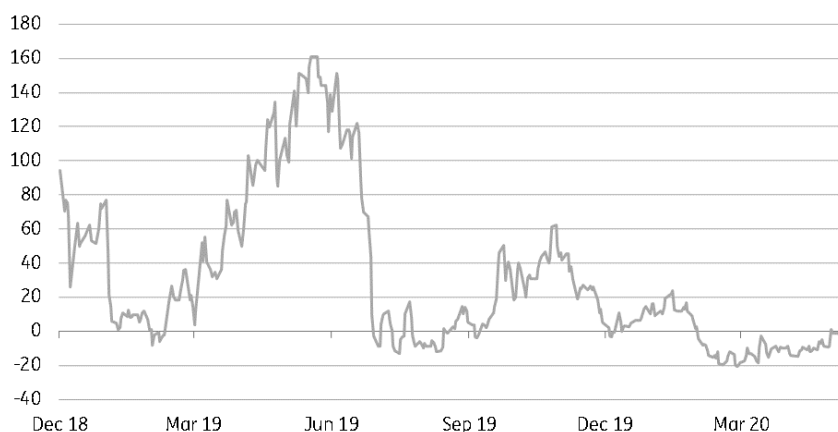
## Energy

The positive sentiment in the market has continued this week following the IEA's release last Thursday. WTI is now trading back above US\$30/bbl, while the WTI Jun/Jul spread traded briefly in backwardation on Friday, ahead of this week's contract expiry. This is a big shift from last month, where we saw the May/June spread trade to a contango as deep as US\$60/bbl at one stage. Clearly the fundamentals in the market are improving, but we continue to believe that the market is rallying too much too soon, with the risk that further strength will only prolong the supply and demand imbalance.

Meanwhile Baker Hughes data on Friday continued to show a collapse in US drilling activity, with the number of active oil rigs in the US falling by 34 over the week, to total 258. Total oil rigs are now down more than 62% since mid-March, and at levels last seen in 2009. Sticking with the US, and while it is fairly quiet week when it comes to data releases, regulators in North Dakota will discuss the potential for production quotas on Wednesday. North Dakota is a fairly small producer, pumping only around 1.4MMbbls/d, compare to more than 5MMbbls/d from Texas.

Finally, Saudi Arabia and Kuwait have decided to suspend output at the Khafji field in the neutral zone in June, according to media reports. This follows both countries last week announcing deeper output cuts for June, in an effort to speed up the rebalancing of the market. It is estimated that the cut from the field will total 80Mbbls/d.

## LME zinc cash/3M spread (US\$/t)



Source: Bloomberg, ING Research

## Metals

The weaker macro-environment, concerns over a second wave of Covid-19, and escalation of trade tensions between the US and China have further weighed on market sentiment, which saw base metals trade lower last week. In the latest CFTC data, non-commercials still remained net short Comex copper, as of last Tuesday.

Turning to the LME, base metals remained in contango, with the exception of zinc, where the front end flipped into a small backwardation. However, the inventory move has been moderate since April, and last week there were only 1,200 tonnes of stock outflows.

The tightening at the front end of the curve has two fundamental factors underpinning it. Firstly, as we discussed [here](#), pressure from falling treatment charges (TCs) on smelters, has started to weigh on refined production growth. We expect growth over April and May will be muted. Over the last week, spot TCs have fallen by a further US\$10/tonne to US\$165/tonne. Secondly, expectations are growing for a marginal improvement in demand from Europe, following the recent easing in some country lockdowns.

As for the latest data releases, the China National Bureau of Statistics (NBS) released aggregated April output of non-ferrous metals (including copper, aluminium and others), which pointed to a growth of 2.1%MoM (+3.8% YoY) to total 4.93mt in April 2020. Aluminium output in the country recovered from 95.8kt/day in March to 99kt/day in April, the highest daily output since June 2019. Meanwhile steel production also recovered from 2.55mt/day in March to 2.83mt/day in April.

Finally, data from SHFE continues to show inventory withdrawals for aluminium (-36.6kt) and zinc (6kt), while copper inventories increased by a marginal 4.7kt last week. In aluminium, an increased proportion of molten aluminium relative to ingots from smelters, means limited inflows to reportable inventories.

## Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	32.50	4.40	-50.76	Spot Gold (US\$/oz)	1,743.7	0.77	14.92
NYMEX WTI (US\$/bbl)	29.43	6.79	-51.80	Spot Silver (US\$/oz)	16.6	4.65	-6.95
ICE Gasoil (US\$/t)	270	5.68	-56.07	LME Copper (US\$/t)	5,182	-0.39	-16.08
NYMEX HO (Usc/g)	92	2.86	-54.62	LME Aluminium (US\$/t)	1,462	-0.88	-19.23
Eurobob (US\$/t)	238	2.85	-58.83	LME Zinc (US\$/t)	1,962	0.23	-13.67
NYMEX RBOB (Usc/g)	97	6.09	-42.86	LME Nickel (US\$/t)	11,855	-1.80	-15.47
NYMEX NG (US\$/mmbtu)	1.65	-2.08	-24.81				
TTF Natural Gas (EUR/MWh)	5.22	-0.89	-56.70	CBOT Corn (Usc/bu)	319	-0.31	-17.67
				CBOT Wheat (Usc/bu)	500	-2.01	-10.47
API2 Coal (US\$/t)	43	-1.37	-22.29	CBOT Soybeans (Usc/bu)	839	0.39	-11.08
Newcastle Coal (US\$/t)	54	-2.36	-22.09	ICE No.11 Sugar (Usc/lb)	10.38	-0.76	-22.65
SGX TSI Coking Coal (US\$/t)	122	2.93	-13.48	ICE Arabica (Usc/lb)	105	-0.10	-19.20
SGX Iron Ore 62% (US\$/t)	90.54	3.25	-0.85	ICE London Cocoa (GBP/t)	1,967	0.46	8.14

Source: Bloomberg, ING Research

## Author

### Warren Patterson

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto: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](http://www.ing.com).