

The Commodities Feed: Positive signs for oil?

Your daily roundup of commodity news and ING views



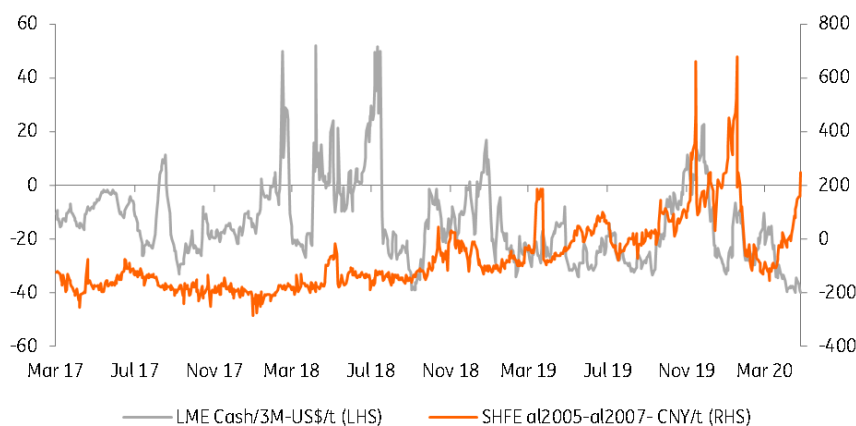
Energy

Oil markets have performed well over the last couple of days, with WTI rallying from a low of US\$10.07/bbl on Tuesday to back above US\$16/bbl in early morning trading today. In the current environment, the market appears desperate for any positive signs, no matter how mild they seem. The focus this week has been on inventory and demand numbers from the US. The EIA yesterday reported that total US commercial crude oil inventories increased by 8.99MMbbls over the last week, while crude oil inventories at Cushing, the WTI delivery hub, increased by 3.64MMbbls. Both of these builds are the smallest we have seen since March. On the refined product side, despite refiners increasing their utilisation rates by 2 percentage points to 69.6% over the week, gasoline inventories still fell by 3.67MMbbls. A key behind this drawdown was the fact that we appear to be seeing a gradual recovery in demand, with gasoline supplied increasing by 549Mbbbls/d, suggesting demand is at the strongest levels so far in April. Obviously this is just one data point. However, if we see a continuation of this trend in the coming weeks, it could suggest the worst might be behind the oil market.

Moving away from the US, and Norway has decided to cut its oil production starting in June, in an effort to try to help stabilise the market. Oil output will be cut by 250Mbbbls/d in June, and then this

will be lowered to 134Mbbbls/d for the remainder of the year. The start-up of production at some fields is also set to be delayed until 2021, which would mean that output in December 2020 will be around 300Mbbbls/d lower than originally planned. The reference for these cuts will be 1.859MMbbbls/d, although output over March was 1.68MMbbbls/d.

LME aluminium vs SHFE aluminium spreads



Source: Bloomberg, ING Research

Metals

Base metals largely shrugged off the soft economic data out of the US (GDP growth at negative 4.8% for 1Q20), and instead continued to focus on stockpiling plans in China, lower mine production and the gradual restart of some economies following lockdown. Improved risk appetite, as seen with the rally in equity markets and a soft USD has further supported the metals complex. Zinc led metals higher, rallying more than 2%, while copper was not too far behind.

In aluminium, there has been a stark contrast in the front end of the forward curve between LME and SHFE, reflecting recent market dynamics. SHFE's backwardation has deepened, with the spread between the nearby contract and the most traded three-month contract (al2005 - al2007) hitting CNY250. In contrast, LME aluminium has moved into steeper contango, making the carry trade more attractive. Yesterday the LME cash/3M spread slipped to negative US\$39.75/tonne. This divergence between the two markets has meant that the physical arbitrage window briefly opened, supporting the idea of increased aluminium flows into China.

After strong gains in recent weeks, gold appears to be plateauing, with an easing in lockdowns taking some of the shine off the metal. Also, the stronger investment demand we have seen would have likely been partly offset by weaker consumer offtake in China and India. Bloomberg data shows that total known ETF holdings of gold increased to a fresh high of 95.58moz, having increased by more than 5moz since the start of the month, and up almost 12.7moz since the start of the year. However, higher prices and country lockdowns have weighed on demand in Asia. China's gold demand was reported to have dropped by around 48% YoY to 148.6 tonnes over 1Q20, due to large scale lockdowns and a slowdown in economic activity. While in India, imports were down around 73%YoY to total 25 tonnes in March, and expectations for April will be for an even softer number, due to a stricter lockdown imposed for the whole month.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	22.54	12.76	-65.85	Spot Gold (US\$/oz)	1,713.4	-0.03	12.93
NYMEX WTI (US\$/bbl)	15.06	17.84	-75.34	Spot Silver (US\$/oz)	15.3	0.58	-14.32
ICE Gasoil (US\$/t)	209	9.31	-66.04	LME Copper (US\$/t)	5,261	1.23	-14.79
NYMEX HO (Usc/g)	69	13.78	-65.76	LME Aluminium (US\$/t)	1,506	-0.07	-16.80
Eurobob (US\$/t)	161	0.68	-72.17	LME Zinc (US\$/t)	1,947	2.18	-14.33
NYMEX RBOB (Usc/g)	73	12.17	-57.17	LME Nickel (US\$/t)	12,315	0.58	-12.19
NYMEX NG (US\$/mmbtu)	1.87	2.75	-14.62	CBOT Corn (Usc/bu)	305	-0.33	-21.47
TTF Natural Gas (EUR/MWh)	6.01	1.23	-50.10	CBOT Wheat (Usc/bu)	520	-0.29	-7.02
API2 Coal (US\$/t)	49	18.32	-18.88	CBOT Soybeans (Usc/bu)	832	0.33	-11.80
Newcastle Coal (US\$/t)	52	2.55	-24.40	ICE No.11 Sugar (Usc/lb)	9.76	5.97	-27.27
SGX TSI Coking Coal (US\$/t)	106	-3.55	-24.83	ICE Arabica (Usc/lb)	104	-0.91	-20.08
SGX Iron Ore 62% (US\$/t)	80.77	-0.69	-11.55	ICE London Cocoa (GBP/t)	2,010	1.41	10.50

Source: Bloomberg, ING Research

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