

The Commodities Feed: Refinery margins make a small comeback

Your daily roundup of commodity news and ING views



Energy

Oil failed to hold onto its gains yesterday, with Brent falling from levels last seen back in early March, and settling below US\$43/bbl. There was little in the way of fresh fundamental developments in the oil market, apart from the usual API report, which was fairly constructive. The report showed that US crude oil inventories increased by 1.75MMbbls, which is not too far off from the 1.5MMbbl build the market was expecting. Meanwhile on the product side, draws of 3.86MMbbls and 2.61MMbbls were seen in gasoline and distillate fuel oil respectively. We will have to wait until later today to see how much these numbers differ from the more widely followed EIA report.

It's no surprise given the scale of demand destruction that we have seen in recent months, that refinery margins have been under significant pressure, trading in negative territory in many regions, and in doing so, ensuring that refiners curtail capacity. However, more recently, we have started to see refinery margins pick up, and they are now at their highest levels in NW Europe since early May, whilst in Singapore, they are just about back in positive territory. A stronger gasoline market appears to be helping margins, as we see more economies returning to some form of normality. However clearly, margins are still historically weak, remaining below pre-

Covid-19 levels, and it is difficult to see significant upside until refined product stocks are brought down to more manageable levels.

Metals

Metals remained primarily driven by macro events, including US and China trade noise, virus fears and USD movements. As for copper, mine risks from Chile remained supportive for prices. Meanwhile, the recent downward trend in LME inventories has continued, which has seen the cash/3m spread trade at a contango of US\$13/t, compared to US\$30 a week ago. The rest of the metals complex, traded mostly lower with zinc settling almost 2.3% lower on the day, although this weakness does come after a week of strength, which saw prices trading to their highest levels since the end of February. There have been multiple drivers behind the initial moves higher, including mine disruptions in South America, a stronger-than-expected demand rally in China, compounded with expectations of infrastructure stimulus. The broader weakness that we have seen in the USD has also helped.

As for precious metals, spot gold continues to edge higher, with prices hitting a high of almost US\$1,775/oz, taking it to levels last seen in 2012. The key driver in this strength appears to be increased safe-haven demand, with fears of a resurgence in Covid-19. Gold ETFs have seen inflows of around 1.2moz over the last week, which has taken total holdings to a record high of a little over 102moz.

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>.