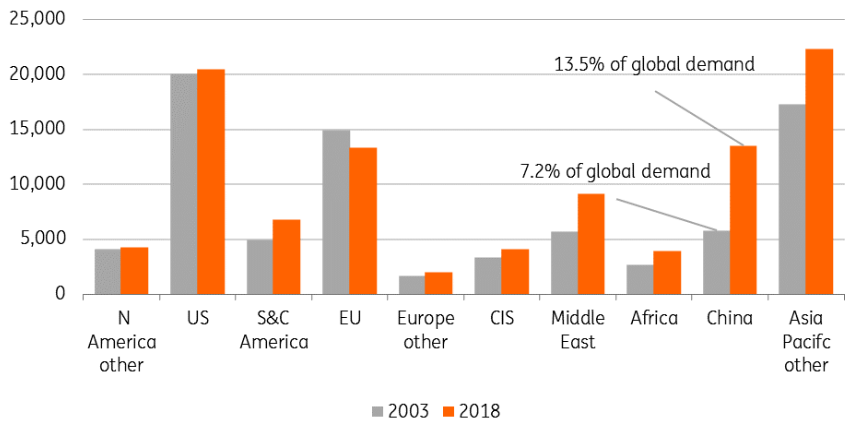
The Commodities Feed: Relief rally

Your daily roundup of commodity news and ING views

Regional refined products demand: 2003 vs. 2018 (Mbbls/d)



Source: BP Statistical Review

Energy

Having been under pressure for the last week, oil finally settled higher yesterday, with ICE Brent closing 0.3% up on the day. The market has continued to rally this morning. API numbers released yesterday appear to have provided some relief to the market. the API reported that US crude oil inventories declined by 4.27MMbbls over the last week, compared to market expectations for a 1.29MMbbls build.

Price action since last Tuesday does suggest that the market is pricing in a fairly sizeable demand impact as a result of the Wuhan virus. This is even more evident when looking at the refined product cracks, which have come under significant pressure. For oil markets the potential demand impact is substantially higher than during the SARS outbreak in 2003, reflecting the growth in oil demand seen within Asia since then, in particular from China. According to BP numbers, total refined product demand from China over 2018 was 13.5MMbbls/d, a 134% increase from levels seen in 2003. China has gone from making up a little over 7% of total global products demand in 2003 to 13.5% in 2018. So clearly any demand hit in China and wider Asia will have a more meaningful impact on the oil market than in 2003. Back in 2003 China made up just over 3% of global jet fuel demand, while in 2018 this share had increased to more than 11.5%. What is interesting as well was that, despite SARS, Chinese jet fuel demand still grew over 2003 although by a very modest 0.97% to average 211Mbbls/d, according to BP numbers.

The big unknown for markets is for how long will travel restrictions be in place, and could these get even stricter? If so, the implications for demand and as a result oil prices only become more significant. If there does turn out to be a prolonged impact from the Wuhan virus then this would be another headache for OPEC+, who had already agreed to deeper cuts over 1Q20 in an attempt to keep the market in balance. Weaker demand now would only make their job more difficult. If we continue to see pressure on oil prices then this could push OPEC+ to make even deeper cuts, although current supply disruptions in Libya (which the market seems to have largely forgotten about) help.

While oil and most of the refined products basket have been under pressure, there has been one product which continues to hold its ground. High sulphur fuel oil (HSFO) was expected to come under significant pressure this year as a result of IMO 2020 shipping regulations - it looked that way at the end of last year, with the spot crack in NW Europe trading below a discount of US$30/bbl in November. Since December these fuel oil cracks have strangely strengthened - even last week, when the rest of the complex was in the red. Part of this crack strength reflects the weakness seen in crude oil. Other drivers appear to be the fact that refiners in the lead up to the implementation of IMO 2020 would have done what they could to reduce their fuel oil yields. We have also seen increased flows of HSFO to the US, where more complex refiners on the Gulf Coast will process the fuel oil into higher value products. Finally, US waivers that Iraq received in order to import Iranian gas and electricity could expire next month, which possibly means that Iraqi fuel oil export availability falls on the back of increased domestic fuel oil demand for power generation.

Metals

Copper led the sell-off in base metals yesterday. The coronavirus outbreak has now led to travel restrictions between Hong Kong and mainland China being announced. LME 3M copper plunged to an intraday low of US$5,690/t - levels last seen in October. The market has been struggling to measure the potential damage from the virus outbreak, with uncertainty over when business activity will return to normal, something clearly dependent on coronavirus developments. Officials in the construction sector from Changsha, the capital city of Hunan province, issued guidance to the sector stating that work should not restart before 8 February. However, businesses may decide to restart after this guide date, which does imply potential for disruptions along supply chains.

In ferrous metals, iron ore futures came under further pressure yesterday. The SGX most active contract fell well below US$85/t, as the raw material struggled to escape demand concerns as a result of the Wuhan virus. The market this morning has been much more buoyant, rallying as much as 3.9% at one stage. There is little in the way of a catalyst for today's strength, although yesterday there was news that the 55 mtpa Roy Hill mine in Australia would be shut for 24 hours following a fatal accident. In Brazil heavy rains mean that Vale has raised the threat level at one of its dams at the Gongo Soco mine in Minas Gerais.

Finally, latest data from the World Steel Association shows that global crude steel production increased 3.4% YoY to total 1,867mt in 2019. Output increases from Asia and the Middle East offset declines seen elsewhere. China remained the prime contributor, with total production rising by 8.3% YoY to 996mt. The EU saw a decline of 5% YoY, with total production coming in at 159mt. Ongoing measures in China to combat the Coronavirus and the drag we have seen in ex-China supply mean that global output could be weaker over 1Q20.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**59.51**	0.32	-9.83
NYMEX WTI (US$/bbl)	**53.48**	0.64	-12.41
ICE Gasoil (US$/t)	**525**	2.64	-14.50
NYMEX HO (Usc/g)	**172**	2.17	-15.40
Eurobob (US$/t)	**568**	0.03	-1.57
NYMEX RBOB (Usc/g)	**150**	1.29	-11.46
NYMEX NG (US$/mmbtu)	**1.93**	1.68	-11.65
TTF Natural Gas (EUR/MWh)	**10.79**	2.53	-10.45
API2 Coal (US$/t)	**51**	0.39	-5.35
Newcastle Coal (US$/t)	**68**	0.00	-2.17
SGX TSI Coking Coal (US$/t)	**152**	-0.56	7.52
SGX Iron Ore 62% (US$/t)	**83.27**	-2.25	-8.82

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,567.2**	-0.94	3.29
Spot Silver (US$/oz)	**17.5**	-3.47	-2.13
LME Copper (US$/t)	**5,703**	-0.70	-7.63
LME Aluminium (US$/t)	**1,752**	-0.68	-3.20
LME Zinc (US$/t)	**2,230**	-0.45	-1.85
LME Nickel (US$/t)	**12,550**	-0.52	-10.52
CBOT Corn (Usc/bu)	**387**	1.58	-0.32
CBOT Wheat (Usc/bu)	**570**	-0.44	1.97
CBOT Soybeans (Usc/bu)	**895**	-0.25	-5.09
ICE No.11 Sugar (Usc/lb)	**14.54**	2.32	8.35
ICE Arabica (USc/lb)	**105**	-1.45	-19.01
ICE London Cocoa (GBP/t)	**1,939**	-0.82	6.60

Source: Bloomberg, ING Research

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