

The Commodities Feed: Relief rally for oil

Your daily roundup of commodity news and ING views

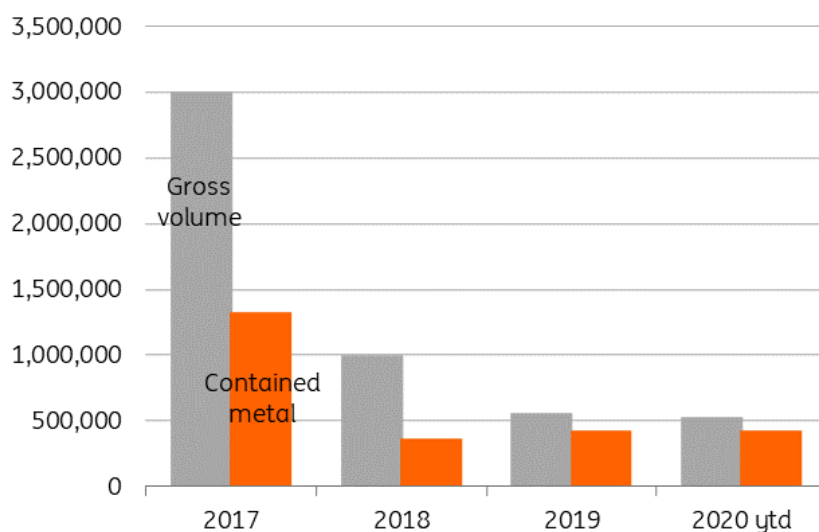


Energy

After the weakness earlier in the week, oil markets have seen quite a rebound, with ICE Brent rallying almost 5% yesterday, settling back above US\$21/bbl, while WTI jumped by almost 20%. Both markets have continued to trend higher in early morning trading in Asia. There is little in the way of fundamental developments to support the move higher, although given the amount of weakness recently, we were due a relief rally. Renewed tensions between the US and Iran will likely be providing some support, but as we mentioned yesterday this will likely be short-lived unless we see a further escalation.

Moving to the OPEC+ group, and the low price environment does appear to have pushed some members to start cutting early. There are media reports that both Algeria and Kuwait have already started to reduce output ahead of 1 May, when the deal is set to start. Earlier in the week, Nigeria's state oil company said that it would have to cut oil production with or without an OPEC+ deal, given storage limitations. While bringing forward some of these cuts is a promising signal, they will do very little to deal with the surplus that the market is currently facing. We continue to believe that there is more downside risk to prices in the short term.

China copper scrap import quota approval & estimated contained copper (tonnes)



Source: China Solid Waste & Chemicals Management, ING Research

Metals

Australian miner, MMG Ltd. reported that copper production declined 20% over 1Q20 to total 92kt, due to declines from its Las Bambas mine in Peru. Smelters will be feeling the tightening in concentrate supply as a result of continued mine disruptions owing to Covid-19, and this will likely translate into weaker refined production during 2Q20.

As for scrap supply, yesterday, Chinese authorities revealed the sixth batch of the approved quota for scrap imports, including copper and aluminium scrap. This came in at 2,150 tonnes (gross) according to China Solid Waste and Chemicals Management and has brought the total approved quota so far this year to approximately 530kt (gross). We estimate this will be equivalent to around 423kt (contained) copper. So far the approved volumes appear to be quite generous, but the main issue with supply tightness was due to disruptions related to Covid-19 lockdowns from main exporters, such as Malaysia. With this in mind, we would expect the actual import volumes in March and April could be even less than the approved quota allows for.

Among other metals, aluminium producer, Alcoa said that it would shut remaining production capacity at one of its US plants in response to the spread of the virus. This follows recent supply cut announcements by Chinese smelters. However, the aluminium market needs more aggressive cuts from producers in order to offset the demand losses we are seeing in the construction and automotive sectors. With demand coming to almost a standstill in many countries, premiums have also fallen despite the suspension of some supply. US premiums have dropped to the lowest level since January 2018 and currently stand at US\$220/t; compared to US\$330/t at the start of the year. It is a similar story in Europe, with premiums dropping to US\$83/t, compared to the recent highs of US\$109/t in early March.

Daily price update

| | Current | % DoD ch | %YTD ch | | Current | % DoD ch | %YTD ch |
|------------------------------|---------|----------|---------|--------------------------|---------|----------|---------|
| ICE Brent (US\$/bbl) | 21.33 | 4.71 | -67.68 | Spot Gold (US\$/oz) | 1,730.5 | 0.96 | 14.05 |
| NYMEX WTI (US\$/bbl) | 16.5 | 19.74 | -72.24 | Spot Silver (US\$/oz) | 15.3 | 1.05 | -14.55 |
| ICE Gasoil (US\$/t) | 228 | 7.43 | -62.91 | LME Copper (US\$/t) | 5,161 | 0.57 | -16.42 |
| NYMEX HO (Usc/g) | 73 | 0.47 | -63.79 | LME Aluminium (US\$/t) | 1,510 | -0.33 | -16.57 |
| Eurobob (US\$/t) | 160 | -2.61 | -72.29 | LME Zinc (US\$/t) | 1,873 | -1.21 | -17.58 |
| NYMEX RBOB (Usc/g) | 64 | 0.81 | -62.09 | LME Nickel (US\$/t) | 12,169 | 1.28 | -13.23 |
| NYMEX NG (US\$/mmbtu) | 1.82 | -6.40 | -17.09 | | | | |
| TTF Natural Gas (EUR/MWh) | 6.06 | -2.71 | -49.74 | CBOT Corn (Usc/bu) | 319 | 0.55 | -17.67 |
| | | | | CBOT Wheat (Usc/bu) | 547 | 0.74 | -2.10 |
| API2 Coal (US\$/t) | 52 | 0.68 | -15.44 | CBOT Soybeans (Usc/bu) | 839 | 0.54 | -11.00 |
| Newcastle Coal (US\$/t) | 52 | 0.97 | -24.62 | ICE No.11 Sugar (Usc/lb) | 9.84 | 0.10 | -26.68 |
| SGX TSI Coking Coal (US\$/t) | 117 | -5.74 | -17.18 | ICE Arabica (Usc/lb) | 111 | 0.41 | -14.38 |
| SGX Iron Ore 62% (US\$/t) | 81.50 | -0.88 | -10.75 | ICE London Cocoa (GBP/t) | 1,994 | -0.25 | 9.62 |

Source: Bloomberg, ING Research

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