

The Commodities Feed: New wave Covid angst

Your daily roundup of commodity news and ING views



Energy

Crude oil prices retreated yesterday and settled around 5% down for the day, even as the ship blocking the Suez Canal remained in place. Demand pessimism due to the rising number of fresh Covid-19 cases continues to be the main drag on the oil market. A stronger US Dollar and risk-averse sentiment have further weighed on oil prices. Meanwhile, there was little progress on clearing the Canal yesterday and it could still take longer than expected for the shipping route to reopen. Some ships were reported to be taking the lengthier route around the Cape of Good Hope to avoid the logjam and delay in shipping; even though this increases shipping costs and duration. The logistical bottlenecks for crude oil and product shipments between Europe, Middle East and Asia could remain supportive for the oil market in the near term.

Turning to products, and ARA hub inventory of refined products increased by 60kt over the last week, with gasoil and gasoline inventory increasing by 94kt and 31kt respectively, data from Insight Global shows. On the other hand, refined product inventory in Singapore dropped by 1.5MMbbls last week, with stocks of light and middle distillate falling by 0.9MMbbls and 0.1MMbbls respectively. Middle distillate inventory in Singapore has now dropped to its lowest level in around 8 months at 13.8MMbbls; though still comfortably high compared to the 5-yr average of

12.1MMbbls at this point in the season.

Metals

Metals, among other risk assets, have been in risk-averse mode as the greenback strengthening acts as a headwind. Despite a positive PMI reading in the Eurozone, the third Covid-19 wave in some European countries adds to uncertainties on the widely anticipated 2Q21 reopening and the metals demand recovery path. It's likely that the market will see a macro repricing before more catalysts feed through. Meanwhile China's National Development & Reform Commission (NDRC) poured cold water on market sentiment, stating that there is no basis for bulk commodity prices to increase in the long term.

LME 3M copper tumbled more than 2.2% during London sessions to an intra-day low of US\$8,702/tonne while the other base metals also traded lower but in a narrower range. For most of this week, gold has held relatively steady amid calmer Treasury yields, but is now facing headwinds from the strengthening greenback. Yesterday, gold was relatively resilient but only until the US Treasury 7y note auction result spurred yields higher again and weighed heavily on gold.

For Copper, China's top copper smelters on Friday skipped setting their floor treatment and refining charges (TC/RCs) for copper concentrate in the second quarter. The floor price agreed for the first quarter is \$53/t (5.3¢/lb), while spot TCs have slid to around \$30/t this month. Turning to aluminium, the latest data on Japan's shipments of rolled aluminium products add to the signs that demand from outside China recovering this year. February shipments posted a positive year-on-year change for the first time in 19-months, thanks to firmer demand from the auto industry.

Agriculture

In its latest weekly update, the Buenos Aires Grain Exchange left Argentina corn and soybean production estimates unchanged at 44mt and 45mt respectively. The exchange reported 7% of the current corn crop being harvested to date as against 15.8% at this stage last year and the 5-yr average of around 14% - due to heavy rains over recent weeks which have delayed the harvest. In Brazil, the latest UNICA data shows that sugar cane crushing in Center-South Brazil dropped to 1.7mt over the second half of March 2021 compared to c.3mt over the same period last year. However, sugar production in the region still increased by 24% YoY to 51kt, as millers continue to allocate a large share of cane towards sugar production.

Looking ahead for the next week, the USDA is scheduled to release its Prospective Planting report on Wednesday and expectations are that the USDA could increase its acreage estimates for both corn and soybean for 2021/22 compared to its initial estimates made in February 2021. According to a Bloomberg survey, the USDA could increase its corn acreage estimates to 93.1m acres in 2021/22, compared to its earlier estimates of 92m acres and acreage of 90.8m acres for 2020/21. The survey also shows that soybean acreage estimates could be revised higher to 90.1m acres for 2021/22 compared to 83.1m acres planted this year.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@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.