Snap | 25 February 2020

COMMODITIES DAILY

The Commodities Feed: Risk off hits the complex

Your daily roundup of commodity news and ING views

Energy

Markets have started the week with a clear move towards safe-haven assets. This is evident in the sell-off we have seen in risk assets, whilst precious metals continue to strengthen, and US treasury yields decline. ICE Brent settled almost 3.8% lower yesterday, while refined products also came under pressure. Concerns over the rising number of Covid-19 cases outside China continues to weigh on sentiment, and market participants are likely to remain cautious until there is a sign of a peak in of cases outside China. The outbreak of Covid-19 has also seen a much leaner gathering at IP week, which got underway in London yesterday. A number of company receptions have been cancelled, whilst several companies have also reportedly asked employees to stay away from events.

Meanwhile, time spreads have come under renewed pressure, with the ICE Brent May/June spread falling from a backwardation of US$0.22/bbl to near flat by the end of yesterday. Admittedly though, this is still some distance away from the deep contango we saw earlier in the month. Additionally, and not surprising with growing demand concerns outside the US as a result of Covid-19, we are also seeing the WTI/Brent discount narrowing once again, with it back above a US$5/bbl discount.

Turning to middle distillates and the weakness here persists, with the spot ICE gasoil crack now trading sub US$9/bbl, largely a reflection of demand fears resulting from Covid-19. However, if we look at gasoil inventory numbers in the ARA region, they are in fact at the lowest levels in at least 5 years for this time of year.

Looking ahead to the rest of the week, later today the API will publish weekly US inventory numbers, and market expectations are that US crude oil inventories increased by 1.75MMbbls over the week, according to a Bloomberg survey. Then as mentioned previously, it is IP-week in London, and so some views and noise are likely to make it onto the newswires.

Copper/gold ratio trades down to 2016 levels

Source: Bloomberg, ING Research

Metals

Gold was shining yesterday with the return of safe-haven demand. The yellow metal rallied as much as 2.8% at one stage. However, it settled just short of 1% higher on the day. The recent trend in the copper/gold ratio clearly highlights current investor sentiment. The ratio is trading down at levels last seen back in 2016 - a year where we saw both the Brexit referendum and the US presidential election.

LME zinc led the move lower yesterday, settling almost 3.3% lower on the day, and trading down to levels last seen back in mid-2016. LME zinc inventories have weighed on prices, increasing by 52% over the last 3 weeks, whilst the cash/3month spread has moved into a deeper contango of US$19.50/t currently compared to a backwardation of US$9/t at the start of the month. Meanwhile, updates from the National Development and Reform Commission (NDRC) in China yesterday suggest that 86.3% of nonferrous metals enterprises have resumed production. NDRC data also showed that more than 70% of major industrial companies in Shandong, Fujian, Liaoning, Guangdong and Jiangxi provinces have restarted production, whilst Jiangsu reported it has reached 90%.

Looking at ferrous metals, Iron ore futures yesterday gave up some of the gains from last week, with the raw material tracking the weakness seen across industrial commodities. Meanwhile, China's major steelmaker, Baowu Steel Group, has said that the Chinese steel industry has been badly impacted by extended holidays and transport restrictions. The group, which has a production capacity of 70mtpa, expects its output to decline by 5% in 1Q20. Another major Chinese steel producer, Jiangsu Shagang with a production capacity of 40mpta also expects a similar percentage decline in output over the first quarter. The producer also stated that steel inventories are rising constantly and stand 20% above last year's levels.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**56.30**	-3.76	-14.70
NYMEX WTI (US$/bbl)	**51.43**	-3.65	-15.77
ICE Gasoil (US$/t)	**486**	-4.52	-20.93
NYMEX HO (Usc/g)	**161**	-4.35	-20.47
Eurobob (US$/t)	**523**	-0.87	-9.46
NYMEX RBOB (Usc/g)	**161**	-2.51	-5.22
NYMEX NG (US$/mmbtu)	**1.83**	-4.09	-16.54
TTF Natural Gas (EUR/MWh)	**9.04**	-3.89	-24.95
API2 Coal (US$/t)	**48**	-2.16	-12.92
Newcastle Coal (US$/t)	**66**	-1.28	-4.78
SGX TSI Coking Coal (US$/t)	**160**	0.45	12.99
SGX Iron Ore 62% (US$/t)	**89.06**	-0.89	-2.47

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,659.4**	0.97	9.37
Spot Silver (US$/oz)	**18.6**	0.79	4.38
LME Copper (US$/t)	**5,689**	-1.32	-7.86
LME Aluminium (US$/t)	**1,699**	-0.85	-6.13
LME Zinc (US$/t)	**2,046**	-3.26	-9.95
LME Nickel (US$/t)	**12,430**	-0.80	-11.37
CBOT Corn (Usc/bu)	**372**	-1.26	-4.00
CBOT Wheat (Usc/bu)	**536**	-2.68	-4.03
CBOT Soybeans (Usc/bu)	**874**	-1.82	-7.29
ICE No.11 Sugar (Usc/lb)	**15.27**	-2.05	13.79
ICE Arabica (USc/lb)	**106**	-2.71	-18.35
ICE London Cocoa (GBP/t)	**1,976**	-1.20	8.63

Source: Bloomberg, ING Research

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Disclaimer