The Commodities Feed: Sanction risks return

Your daily roundup of commodity news and ING views

Energy

The weakness seen in the oil market much of yesterday lifted as the day progressed, with ICE Brent managing to settle marginally higher on the day. While demand concerns continue to linger, the big development yesterday was news that the US Treasury announced sanctions on Rosneft Trading SA, a subsidiary of Rosneft PJSC, for continuing to trade with sanctioned Venezuelan oil producer, PDSVA. The US Treasury will give companies 90 days to wind down any deals with the unit. Given that these sanctions relate to a unit of Rosneft, rather than the parent company or any other subsidiaries, it is still uncertain how much of an impact this will have on oil flows, with it unclear how much oil and product is traded through the sanctioned unit. However, this uncertainty does seem enough to at least offer some support to the market for the time being.

Elsewhere, Libya has seen a flaring up in tension once again, with forces loyal to commander Khalifa Haftar attacking Tripoli port, which has led to the Tripoli-based government pulling out of peace talks. This suggests that oil supply disruptions from Libya will continue, with the export blockades likely to remain in place. The Libyan National Oil Corporation has reported that current oil output in the country is just 123.5Mbbls/d, down by around 1MMbbls/d since the start of the blockade. It is the uncertainty around when Libyan supply could return to the market that makes it difficult for OPEC+ to agree on the level of production cuts needed to keep the market in balance.

Finally, the EIA released its latest Drilling Productivity report yesterday, in which they estimate that

US shale oil production will increase by 18Mbbls/d MoM to average 9.18MMbbls/d in March. Meanwhile the number of drilled but uncompleted wells (DUCs) declined for an eighth consecutive month, falling by 34 over the month to total 7,682 at the end of January, with well completions continuing to outpace drilling.

Metals

Rio Tinto lowered its 2020 iron ore shipment guidance to 324-334mt, compared to its previous estimate of 330-343mt, following damage caused by Tropical Cyclone Damien and other weather-related operational challenges. This follows Vale last week lowering its iron ore production forecast for 1Q20 due to unfavourable weather conditions. Meanwhile, BHP also raised concerns over the coronavirus outbreak and expects demand to fall for the year if the virus is not contained by the end of this quarter.

Looking at consumption, and according to a Platts survey, most steel mills in China are planning to reduce output due to rising inventories, raw material shortages and weak product demand. As per the survey, 35% of the participants had already lowered output, whilst 23% reported that operations were running normally. It has also been suggested that some mills might bring forward scheduled maintenance for steel-making operations, which would eventually reduce overall output. The bulk of mills said that rising inventories pose the biggest challenge, while a few also highlighted the absence of downstream demand. The latest data from Custeel shows that China's rebar inventories climbed to 9.5mt as of Friday (the highest level since Mar'18), compared to 8.1mt a week earlier.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**57.75**	0.14	-12.50
NYMEX WTI (US$/bbl)	**52.05**	N/A	-14.76
ICE Gasoil (US$/t)	**504**	-1.22	-17.92
NYMEX HO (Usc/g)	**167**	N/A	-17.55
Eurobob (US$/t)	**523**	N/A	-9.34
NYMEX RBOB (Usc/g)	**161**	N/A	-4.89
NYMEX NG (US$/mmbtu)	**1.98**	N/A	-9.50
TTF Natural Gas (EUR/MWh)	**9.38**	0.73	-22.16
API2 Coal (US$/t)	**50**	-4.67	-8.25
Newcastle Coal (US$/t)	**68**	-2.86	-1.67
SGX TSI Coking Coal (US$/t)	**161**	0.27	13.64
SGX Iron Ore 62% (US$/t)	**86.97**	-0.92	-4.76

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,601.6**	1.30	5.56
Spot Silver (US$/oz)	**18.2**	2.71	1.80
LME Copper (US$/t)	**5,773**	-0.67	-6.49
LME Aluminium (US$/t)	**1,720**	-0.06	-4.97
LME Zinc (US$/t)	**2,145**	-1.24	-5.59
LME Nickel (US$/t)	**12,820**	-2.21	-8.59
CBOT Corn (Usc/bu)	**383**	N/A	-1.23
CBOT Wheat (Usc/bu)	**567**	N/A	1.43
CBOT Soybeans (Usc/bu)	**892**	N/A	-5.38
ICE No.11 Sugar (Usc/lb)	**15.28**	N/A	13.86
ICE Arabica (USc/lb)	**107**	N/A	-17.85
ICE London Cocoa (GBP/t)	**1,972**	-0.55	8.41

Source: Bloomberg, ING Research

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