

The Commodities Feed: Short-term bounce, fundamentals remain bearish

Your daily roundup of commodity news and ING views



Energy

Following the massive sell-off in the market yesterday, ICE Brent has opened stronger this morning, with the market up more than 5% at the time of writing. Part of this strength likely reflects shorts taking profits, following the scale of the move yesterday. Fundamentally the market remains bearish, producers are set to open the taps from 1 April, and this will push the market into deep surplus over 2Q20. It's clear that the Saudis are set to increase output starting in 2Q20, while Bloomberg reported yesterday that Russian producer, Rosneft, is set to boost production from 1 April. Meanwhile, Nigeria has also made its intentions clear, saying that it has the capacity to increase production above 2MMbbls/d.

The scale of the expected surplus is weighing on the whole structure of the market, with the prompt ICE Brent time-spread settling at a contango of US\$0.74/bbl yesterday, the weakest levels seen since late 2018. Meanwhile, the Dec-20/Dec-21 spread traded to a contango of US\$5.70/bbl yesterday. The forward curve will need to remain in deep contango in order to carry the surplus forward.

Finally, Canadian oil producers will be feeling the pressure, with West Canada Select trading at

around US\$17.80/bbl, which is approaching levels last seen in late 2018, when the differential to WTI reached a discount of US\$50/bbl, and pushed producers in Alberta to cut output, cuts which are still ongoing.

Metals

The sell-off in risk assets saw spot gold trading briefly above US\$1,700/oz yesterday with investors seeking safe havens. Unsurprisingly gold ETF holdings continued to surge, with inflows of 1.52moz over the last two days, taking total holdings to 86.68moz as of yesterday. YTD inflows now total 5.2moz versus inflows of 741koz over the same period last year. The sell-off in the market later in the session yesterday appears to reflect the need for investors to meet margin calls elsewhere.

Turning to base metals, LME copper along with aluminium and zinc slipped to multi-year lows as the free fall in oil prices added further bearishness to an already depressed metals complex. Meanwhile, LME zinc cancelled warrants jumped to 3,325 tonnes yesterday, potentially leading to stock outflows. Hefty inventory outflows, if true, may sound the alarm to zinc's old bear trap game in the short term, but this will not change our bearish view towards zinc in the medium term. As for aluminium, Norsk Hydro reported that the Albras plant experienced a fire last Friday, which has led to the shutting down of one of four production lines. Production losses from Albras, if prolonged, together with earlier reports of some primary smelters outside of China considering shutdowns, increases supply risks for primary aluminium in the longer term.

Finally, the latest Chinese customs trade data shows that imports of copper ore and concentrates fell 1.2% YoY and stood at 3.77mt over January and February. This follows slowing smelter runs in the country. Looking at exports, China's unwrought aluminium exports dropped 25% to 670kt, whilst steel exports declined by 27% to 7.81mt over the first two months of the year, largely reflecting the impact from Covid-19.

Daily price update

| | Current | % DoD | ch | %YTD | ch | | Current | % DoD | ch | %YTD | ch |
|------------------------------|---------|--------|--------|------|----|--------------------------|---------|-------|--------|------|----|
| ICE Brent (US\$/bbl) | 34.36 | -24.10 | -47.94 | | | Spot Gold (US\$/oz) | 1,680.5 | 0.40 | 10.76 | | |
| NYMEX WTI (US\$/bbl) | 31.13 | -24.59 | -49.02 | | | Spot Silver (US\$/oz) | 17.0 | -1.91 | -4.68 | | |
| ICE Gasoil (US\$/t) | 359 | -13.07 | -41.49 | | | LME Copper (US\$/t) | 5,535 | -1.28 | -10.35 | | |
| NYMEX HO (USc/g) | 116 | -16.05 | -42.67 | | | LME Aluminium (US\$/t) | 1,687 | 0.12 | -6.80 | | |
| Eurobob (US\$/t) | 362 | -16.18 | -37.31 | | | LME Zinc (US\$/t) | 1,979 | -0.25 | -12.90 | | |
| NYMEX RBOB (USc/g) | 114 | -18.15 | -33.04 | | | LME Nickel (US\$/t) | 12,650 | -1.48 | -9.80 | | |
| NYMEX NG (US\$/mmbtu) | 1.78 | 4.10 | -18.78 | | | CBOT Corn (USc/bu) | 374 | -0.80 | -3.48 | | |
| TTF Natural Gas (EUR/MWh) | 8.63 | -0.23 | -28.41 | | | CBOT Wheat (USc/bu) | 522 | 0.19 | -6.53 | | |
| API2 Coal (US\$/t) | 53 | -2.03 | -12.89 | | | CBOT Soybeans (USc/bu) | 864 | -2.24 | -8.43 | | |
| Newcastle Coal (US\$/t) | 65 | -2.20 | -6.52 | | | ICE No.11 Sugar (USc/lb) | 12.61 | -3.15 | -6.04 | | |
| SGX TSI Coking Coal (US\$/t) | 153 | -0.82 | 8.10 | | | ICE Arabica (USc/lb) | 109 | 3.17 | -16.00 | | |
| SGX Iron Ore 62% (US\$/t) | 85.01 | -2.37 | -6.91 | | | ICE London Cocoa (GBP/t) | 1,806 | -2.38 | -0.71 | | |

Source: Bloomberg, ING Research

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