

The Commodities Feed: Steel profitability struggling

Your daily roundup of commodity news and ING views



Source: Shutterstock

China steel mills profitability index



Source: Bloomberg, ING

Energy

Saudi oil exports: According to media reports, Saudi Arabia will keep its oil shipments 700Mbbbls/d below customers' demand for September as the Kingdom aims to tighten the oil market and support prices. Crude oil prices have dropped by around 12% in the month so far on demand concerns and the OPEC member has been targeting to keep the market in balance by adjusting supplies. We continue to see market tightening for the remainder of 2019 on seasonal demand recovery and OPEC cuts; though a surplus may return in 2020 on rising US output and a demand slowdown.

Refined products inventory: Data from Insight Global shows that gasoil inventory at ARA, Europe dropped by 66kt over the last week with current stocks reported at 2,947 kt. Lower shipments from Russia and increased flow inland along the Rhine helped the drawdown last week. Meanwhile, gasoline inventories increased by another 21kt over the week with current stocks rising to a 6-month high of 1,265kt; gasoline stocks are at their highest level in a decade for this time of the year.

In Asia, International Enterprise data shows that refined products inventory in Singapore increased by 2.6MMbbbls over the last week, the second consecutive week of inventory build. Light distillate and fuel oil inventory increased by 0.3MMbbbls and 2.8MMbbbls respectively while middle distillate inventory dropped by 0.5MMbbbls.

US natural gas: Weekly data from EIA shows that US natural gas inventories increased by 55Bcf over the last week as against the 5-yr average of 43Bcf for this time of year. The inventory injections have been stronger (by around 33% compared to 5y average) in the season so far on record-high production and relatively modest demand, though the current inventory at 2,689Bcf is still 111Bcf lower than the 5y average for this time of the year due to low inventory levels at the start of the injection season. Meanwhile, dry gas production in the US increased to a record high of 92.1/Bcf/d this week on rising output from shale gas fields.

Metals

Steel profitability: BBG data shows that steel mills' profitability in China dropped into negative territory from the start of the month on low steel prices. Demand concerns and higher steel inventories have been weighing on steel prices which impacted the steel mills' profit margins.

Iron ore prices have been reacting to the oversupply concerns with SGX iron ore down 18% so far this month as steel mills may reduce operating rates on low profitability whilst iron ore supplies from Brazil and Australia recover further. Latest data from Customs showed that Chinese iron ore imports recovered 21% MoM to 91.1mt in July 2019. And these higher imports were seen pushing up the iron ore inventory at Chinese ports over the past few weeks.

Zinc: LME Zinc prices dropped to a three year low of US\$2,261/t yesterday on improving supply prospects even though the demand-side faces greater uncertainty due to concerns over trade and currency wars. Earlier, in the week Glencore reported that its zinc production increased by 38kt YoY over the first half of 2019 due to the restart of the Lady Loretta mine and higher production at the McArthur River mine; the company is targetting full-year production to increase 127kt YoY. Chinese zinc production is also likely to be stronger in 2H19 on higher treatment charges and improving mine supplies. Meanwhile, the zinc cash/3m spread continued to trade in a contango of US\$7/t as of yesterday indicating comfortable supplies in the immediate term.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	57.38	2.05	6.65	Spot Gold (US\$/oz)	1,501.0	-0.01	17.03
NYMEX WTI (US\$/bbl)	52.54	2.84	15.70	Spot Silver (US\$/oz)	16.9	-1.01	9.28
ICE Gasoil (US\$/t)	54.3	1.69	6.27	LME Copper (US\$/t)	5,798	1.63	-2.80
NYMEX HO (Usc/g)	178	1.33	5.70	LME Aluminium (US\$/t)	1,778	1.89	-3.68
Eurobob (US\$/t)	583	1.23	21.46	LME Zinc (US\$/t)	2,304	1.90	-6.61
NYMEX RBOB (Usc/g)	165	1.57	24.33	LME Nickel (US\$/t)	15,880	7.22	48.55
NYMEX NG (US\$/mmbtu)	2.13	2.16	-27.62				
TTF Natural Gas (EUR/MWh)	12.08	5.81	-45.07	CBOT Corn (Usc/bu)	411	1.11	9.60
				CBOT Wheat (Usc/bu)	499	2.10	-0.94
API2 Coal (US\$/t)	63	0.89	-26.21	CBOT Soybeans (Usc/bu)	865	1.91	-1.98
Newcastle Coal (US\$/t)	71	-0.35	-30.47	ICE No.11 Sugar (Usc/lb)	11.43	0.79	-4.99
SGX TSI Coking Coal (US\$/t)	158	1.09	-25.60	ICE Arabica (Usc/lb)	97	0.52	-4.37
SGX Iron Ore 62% (US\$/t)	90.69	1.80	30.55	ICE London Cocoa (GBP/t)	1,728	-0.58	-2.15

Source: Bloomberg, ING

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