

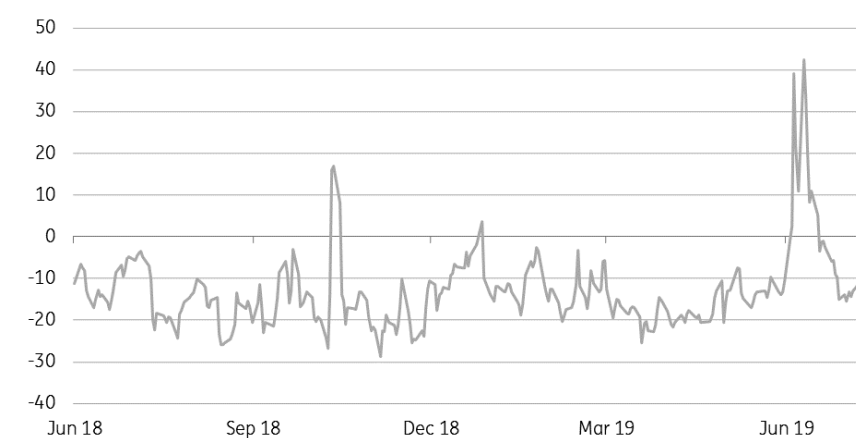
The Commodities Feed: Stock draws & storm fears

Your daily roundup of commodity news and ING views



Source: Shutterstock

LME Lead cash/3M spread (US\$/t)



Source: Bloomberg

Energy

US inventories & production: It was a strong day for the commodities complex yesterday, with the move led by oil; Brent settled more than 4.4% higher on the day. A weaker dollar was supportive for the complex, while specifically for oil, the EIA reported a US crude oil drawdown of 9.5MMbbls over the last week. This was significantly more than the 2.9MMbbls draw the market was expecting, and somewhat higher than the 8.13MMbbls decline the API reported the previous day. Gasoline inventories fell by 1.46MMbbls and distillate fuel oil stocks increased by 3.73MMbbls.

Refinery utilisation rates increased by 0.5 percentage points to average 94.7% over the week. On the trade side, crude oil imports fell by 283Mbbls/d over the week to 7.3MMbbls/d, whilst crude oil exports increased by 58Mbbls/d to average 3.05MMbbls/d over the week.

Looking at production, the EIA forecasts that oil output over the week increased by 100Mbbls/d to 12.3MMbbls/d. However looking ahead, next week's release will start to reflect the production shut ins in the US Gulf of Mexico, with a number of platforms evacuated ahead of a storm. The Bureau of Safety and Environmental Enforcement (BSEE) reported yesterday that 15 platforms in the Gulf have been evacuated, while 603Mbbls/d of oil production has been shut in, which is almost 32% of total Gulf of Mexico production. Growing concerns over the storm have been supportive for the market.

Metals

Lead backwardation deepens: The base metals complex extended gains yesterday on the back of a weaker dollar. Specifically for lead, after the front end of the forward curve flipped into backwardation, it continued, with the cash/3M spread trading up to \$10.50/t on Wednesday. LME data, though two-days delayed, suggests that on both cash and tom/next there were two parties holding 30-39% of positions against live stocks on Monday. Technically, lead seems to be pointing towards a cash squeeze. Against the backdrop of decade-low LME inventories, the recent supply disruptions from Nyrstar's Port Pirie, coupled with some unplanned maintenance schedules due to pollution controls in China, all support the narrative of tightness in nearby availability. However fundamentally, lead is in a seasonal demand lull, and this is partly evident in rising inventory on the ShFE market.

Gold stronger: Gold prices settled more than 1.5% higher yesterday, following dovish comments from US Fed Chairman Jerome Powell, while lingering tensions in the Middle East would have also offered some support. In his testimony to Congress, Powell said that "uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the US economic outlook", boosting hopes of a rate cut at the next FOMC meeting. Meanwhile, ETF holdings in gold continue to rise, increasing by another 200kOz yesterday, taking total holdings to a fresh five-year high of 74.31mOz. Looking ahead, whilst broader macro uncertainty should continue to be constructive for gold prices, the risk is that the market is pricing in too many rate cuts.

Agriculture

CS Brazil sugar output: Latest UNICA data shows that sugar output in the Central-South Region of Brazil fell by 4.1% year-on-year to 2.2mt over 2H June. This fall in sugar output comes despite the fact that the cane crush increased 1.2% YoY to total 46.1mt. The driver behind this difference is the fact that producers continue to favour ethanol production over sugar, with 62.86% of cane

allocated to ethanol output, compared to 62.31% in the same period last year. The sucrose content of the cane remains low at 134.5kg/t, compared to 139.8kg/t for the same period last year.

The cumulative cane crush for the season continues to lag behind last year, with 216.8mt of cane crush so far this season, down 3% YoY, whilst cumulative sugar production for the season stands at 8.9mt, down 8.9% YoY. With another ethanol heavy season in CS Brazil, along with expectations that India will see a smaller crop in the upcoming season, the global sugar market is set to return to deficit. However, high levels of stock should ensure the market remains relatively well supplied.

Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	67.01	4.44	24.55			Spot Gold (US\$/oz)	1,419.0	1.53	10.65		
NYMEX WTI (US\$/bbl)	60.43	4.50	33.08			Spot Silver (US\$/oz)	15.2	0.89	-1.64		
ICE Gasoil (US\$/t)	595	3.17	16.40			LME Copper (US\$/t)	5,940	2.03	-0.42		
NYMEX HO (USc/g)	199	4.21	18.46			LME Aluminium (US\$/t)	1,850	1.59	0.22		
Eurobob (US\$/t)	657	3.13	36.94			LME Zinc (US\$/t)	2,401	1.61	-2.68		
NYMEX RBOB (USc/g)	201	4.06	51.48			LME Nickel (US\$/t)	12,990	2.28	21.52		
NYMEX NG (US\$/mmbtu)	2.44	0.78	-16.87								
TTF Natural Gas (EUR/MWh)	12.13	3.19	-44.80			CBOT Corn (USc/bu)	434	0.58	15.80		
						CBOT Wheat (USc/bu)	512	0.39	1.69		
API2 Coal (US\$/t)	62	3.76	-27.92			CBOT Soybeans (USc/bu)	893	1.16	1.19		
Newcastle Coal (US\$/t)	78	2.55	-22.78			ICE No.11 Sugar (USc/lb)	12.50	1.21	3.91		
SGX TSI Coking Coal (US\$/t)	183	-0.54	-13.86			ICE Arabica (USc/lb)	104	-1.46	2.45		
SGX Iron Ore 62% (US\$/t)	114.63	-1.79	65.01			ICE London Cocoa (GBP/t)	1,802	-2.07	2.04		

Source: Bloomberg, ING Research

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