

The Commodities Feed: Texas discusses oil cuts

Your daily roundup of commodity news and ING views



Source: iStock

Energy

Oil came under significant pressure yesterday, with ICE Brent settling below the US\$30/bbl level for the first time in almost 2 weeks. It has, however, managed to edge back above US\$30/bbl in early morning Asian trading. The market is coming to the realisation that OPEC+ cuts, while significant, are still not going to do the job of balancing the market over this quarter. Meanwhile, cuts from outside OPEC+ are likely to be market-driven rather than mandated, so these declines will be gradual rather than immediate.

Sticking with the theme of cuts, the Texas Railroad Commission, which is the oil & gas regulator in Texas, held a meeting yesterday to discuss the potential for production cuts in the state. The views of a number of oil producers were heard, and there was clearly disagreement between producers on whether mandated cuts should be enforced or not. Generally smaller producers were supportive of cuts, whilst larger producers were keener to allow for market-driven declines, something we are already starting to see. This will be a story that will need to be watched closely, with no decision from the Commission as of yet. Texas is not the only state considering mandated cuts, a commission in Oklahoma will meet on the 11 May to also discuss production cuts.

API inventory numbers yesterday were bearish, with US crude oil inventories increasing by 13.14MMbbls over the last week, while stocks at the WTI delivery hub, Cushing, jumped by 5.36MMbbls. If we see similar numbers released by the EIA today, that would take total US crude oil inventories close to 500MMbbls - levels last seen back in mid-2017.

Finally, the WTI May/June spread came under significant pressure yesterday trading to a contango of more than US\$7/bbl - levels last seen more than 10 years ago. While the bearish environment has clearly not been supportive for the spread, further pressure has come from the fact that as we approach the May expiry, indices are rolling their long positions from May to June contracts.

Metals

Gold prices continued to strengthen yesterday, despite upbeat trade data from China, with spot gold prices surging to US\$1747/Oz at one stage yesterday; the highest level since November 2012. The spread between COMEX futures and spot prices remains wide at above US\$40, following physical market disruptions. Meanwhile, total ETF gold holdings rose for a third straight week with inflows of 571kOz yesterday; which took total holdings to a record of 93mOz. YTD net inflows now stand above 10mOz; compared to a marginal addition of 866kOz during the same time last year. In other precious metals, platinum prices led gains, trading to a high of US\$795/t, levels last seen in mid-March. Price action was fairly volatile yesterday, as major producers, Sibanye Stillwater and Impala Platinum announced plans to restart operations following approval from local government.

Base metals continued their price recovery yesterday. Better-than-expected Chinese trade data, along with some major economies partially lifting lockdown restrictions, gave a boost to risk assets. LME copper prices rallied to US\$5200/t at one stage yesterday, supported by the continuous threat to mine supply, with some major producers halting operations. On Monday, Antamina mine in Peru said it would halt its operations for two weeks; adding further concerns over mine supply globally.

Meanwhile, China Customs released monthly trade numbers yesterday; showing that unwrought copper imports rose by 13% YoY to 442kt, whilst copper concentrate imports remained flat YoY to total 1.78mt in March. Looking at the export side, unwrought aluminium and product exports recovered to 519kt in March, compared to 670kt for the first two months of the year. Although, exports remained 2.3% lower YoY. Steel product exports stood at 6.48mt in March, up 2.3% YoY despite the expected slowdown in industrial demand due to the spread of Covid-19.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	29.60	-6.74	-55.15	Spot Gold (US\$/oz)	1,727.0	0.68	13.82
NYMEX WTI (US\$/bbl)	20.11	-10.26	-67.07	Spot Silver (US\$/oz)	15.8	2.19	-11.77
ICE Gasoil (US\$/t)	280	-6.37	-54.48	LME Copper (US\$/t)	5,163	N/A	-16.38
NYMEX HO (Usc/g)	94	-5.07	-53.45	LME Aluminium (US\$/t)	1,504	N/A	-16.93
Eurobob (US\$/t)	186	-0.97	-67.76	LME Zinc (US\$/t)	1,923	N/A	-15.38
NYMEX RBOB (Usc/g)	72	2.37	-57.59	LME Nickel (US\$/t)	11,889	N/A	-15.23
NYMEX NG (US\$/mmbtu)	1.65	-4.29	-24.62				
TTF Natural Gas (EUR/MWh)	6.87	-5.56	-42.96	CBOT Corn (Usc/bu)	326	-1.66	-15.93
				CBOT Wheat (Usc/bu)	549	-1.13	-1.79
API2 Coal (US\$/t)	46	-3.48	-16.58	CBOT Soybeans (Usc/bu)	847	-0.85	-10.18
Newcastle Coal (US\$/t)	58	-2.69	-16.29	ICE No.11 Sugar (Usc/lb)	10.05	-1.18	-25.11
SGX TSI Coking Coal (US\$/t)	131	0.66	-7.52	ICE Arabica (Usc/lb)	117	-2.13	-9.64
SGX Iron Ore 62% (US\$/t)	83.57	1.13	-8.49	ICE London Cocoa (GBP/t)	1,813	N/A	-0.33

Source: Bloomberg, ING Research

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