

The Commodities Feed: The market awaits Iran's response

Your daily roundup of commodity news and ING views



Energy

Oil markets got a boost higher on Friday, and this strength has continued in early morning trading today, following the US airstrike in Baghdad which killed top Iranian commander Qasem Soleimani. The big uncertainty now for markets is how Iran will respond to this attack. While clearly, the latest developments put US assets in the region at risk, it also increases the risk of disruptions to oil supply in the Middle East, be it through the Iranians disrupting Strait of Hormuz oil flows, or through attacking energy infrastructure of US allies in the region ([see also our cross asset piece on what this means for markets](#)). Both of these responses would echo events that we saw last year, with tanker attacks over the summer in the Persian Gulf, followed by strikes on Saudi oil facilities in September. The US has already warned that Saudi energy infrastructure is at risk following the US airstrike. Clearly investors are concerned, and this is reflected in the Aramco share price, which closed 1.7% lower on Sunday trading.

The key question is whether the oil market would be able to absorb any potential supply losses, and the simple answer is that it will obviously depend on the scale of any disruptions. For now, the global oil market is still expected to be in surplus over the first half of 2020, however any disruptions could change this very quickly. If the market was to over-tighten, it would likely bring

an end to the OPEC+ production cut deal, where the group have agreed to cut output by 1.7MMbbls/d over 1Q20, although with stronger compliance from Saudi Arabia, effective cuts are closer to 2.1MMbbls/d. President Trump has made it pretty clear that he has an aversion to high oil prices, and so any disruptions which lead to a significant rally in oil prices would likely see the US make emergency releases from its Strategic Petroleum Reserves, which currently stand at around 635MMbbls. As it is an election year in the US, this only increases the likelihood of such action. Given the significance of last week's event, and the potential for serious repercussions, we believe that the oil market will continue to price in a risk premium, at least until the dust settles.

Metals

The geopolitical tension in the Middle East has also had an impact on metal markets. Unsurprisingly, precious metals have rallied, with gold up more than 3% since the US airstrike, and trading to almost US\$1,590/oz this morning. Clearly the longer the current tension and uncertainty linger, the more of a move towards safe haven assets we are likely to see. At the moment gold ETF holdings stand at 81.6moz, a number which is likely to increase in the coming days.

After ending the year on a higher footing, copper prices came under some pressure last week, with LME 3m copper sinking to an intraday low of US\$6,088.5/tonne on Friday. However recent macro developments and shrinking LME inventories have been supportive. LME stocks have fallen by 57% since September to 145kt currently. News that the US/China will sign phase 1 of the trade deal on 15 January has been bullish for the market, while reports that phase 2 discussions would start immediately has only helped. Moreover, recent macro data from China has been positive, with industrial profits returning to growth in November, and the manufacturing PMI showing expansion in December once again. Meanwhile a decision from the PBoC to cut the reserve requirement ratio by 50bps has added to the more constructive picture. Meanwhile talk of potential smelter cutbacks in China has also provided some upside, but details around this remain vague, with no confirmation yet of cuts from smelters. However, with margins still under pressure, the risk of cuts is still there.

Short-term demand indicators have been somewhat mixed. On the one hand, official figures on China housing completions indicate that the YTD% decline is slowing - completions over the first 11 months have fallen by 4.5% YoY, compared to declines of 5.5% in October and 8.6% in September. On the other hand, copper inventories in the China market have entered a period where we usually see a seasonal build, reflecting demand is entering a seasonal lull. In our view, the pace and scale of inventory builds in China will be a key indicator to watch in the near term.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	68.6	3.55	3.94	Spot Gold (US\$/oz)	1,552.2	1.51	2.30
NYMEX WTI (US\$/bbl)	63.05	3.06	3.26	Spot Silver (US\$/oz)	18.1	0.21	1.16
ICE Gasoil (US\$/t)	626	1.62	1.87	LME Copper (US\$/t)	6,130	-0.95	-0.72
NYMEX HO (Usc/g)	206	1.84	1.63	LME Aluminium (US\$/t)	1,824	1.08	0.77
Eurobob (US\$/t)	608	2.97	5.36	LME Zinc (US\$/t)	2,306	-0.17	1.50
NYMEX RBOB (Usc/g)	175	2.62	3.00	LME Nickel (US\$/t)	13,755	-3.54	-1.93
NYMEX NG (US\$/mmbtu)	2.13	0.38	-2.70				
TTF Natural Gas (EUR/MWh)	12.99	7.55	7.75	CBOT Corn (Usc/bu)	387	-1.28	-0.32
				CBOT Wheat (Usc/bu)	555	-1.03	-0.76
API2 Coal (US\$/t)	54	0.74	0.28	CBOT Soybeans (Usc/bu)	931	-1.46	-1.33
Newcastle Coal (US\$/t)	70	-0.29	0.94	ICE No.11 Sugar (Usc/lb)	13.31	1.37	-0.82
SGX TSI Coking Coal (US\$/t)	146	0.91	3.51	ICE Arabica (Usc/lb)	126	-0.59	-2.58
SGX Iron Ore 62% (US\$/t)	92.48	0.73	1.27	ICE London Cocoa (GBP/t)	1,829	-0.49	0.55

Source: Bloomberg, ING Research

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