

The Commodities Feed: The shrinking risk premium

Your daily roundup of commodity news and ING views



Source: Shutterstock

Alumina to LME aluminium price ratio (%)



Source: Bloomberg, ING Research

Energy

The shrinking risk premium: This week is shaping up to be a fairly weak one for the market, with ICE Brent on course to settle more than 3% lower for the week. Participants are clearly not concerned about Saudi supply, with Aramco reportedly returning production quicker than anticipated. Nor do they seem overly concerned with the risk of further such attacks in the future. We continue to believe the market is underpricing the current geopolitical risk.

In addition to that, the physical market continues to tighten, we estimate large stock drawdowns over the remainder of 3Q and 4Q, and this is reflected in the strong backwardation that we see at the front end of the ICE Brent curve.

Finally, tanker rates have rallied significantly in recent days, following the US imposing sanctions on a number of Chinese tanker owners for allegedly shipping Iranian crude, following the expiration of waivers in May. Due to these sanctions, this has led to a tightening in VLCC availability now.

Metals

Alunorte alumina refinery: Norsk Hydro reported that a Federal court in Brazil has removed the final output embargo on the Alunorte refinery. Earlier last week, the court removed the restrictions under the civil case, and the company said that it could increase operating rates at the refinery to 75-85% by year end vs. the current 50%, once final restrictions are lifted. Alumina prices have fallen by around 30% so far this year, to a two-year low of c.US\$293/t, with the alumina-to-aluminium price ratio falling to 17% on the improving supply outlook for alumina.

Agriculture

Grain forecasts: The International Grains Council has revised lower its estimate for soybean ending stocks for the 2019/20 season to 38mt (down 16mt YoY) compared to its earlier estimate of 41mt due to production downgrades in the US and Argentina. Soybean production was revised down further to 342mt (down 5.8% YoY), which compares to the previous estimate of 344mt, while demand was revised up by 1mt, with the IGC now expecting global soybean consumption to total 359mt (+1.7% YoY) for the year. On the other hand, the IGC revised higher its estimates for ending stocks of both corn and wheat for 2019/20 by 2mt and 1mt, respectively, due to upside revision in beginning stocks for the former and weaker demand for the latter.

Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	62.74	0.56	16.62			Spot Gold (US\$/oz)	1,504.8	0.05	17.33		
NYMEX WTI (US\$/bbl)	56.41	-0.14	24.22			Spot Silver (US\$/oz)	17.8	-0.49	15.03		
ICE Gasoil (US\$/t)	593	-0.54	16.15			LME Copper (US\$/t)	5,722	-1.12	-4.07		
NYMEX HO (Usc/g)	196	0.06	16.32			LME Aluminium (US\$/t)	1,737	-0.86	-5.90		
Eurobob (US\$/t)	589	0.14	22.72			LME Zinc (US\$/t)	2,302	0.52	-6.69		
NYMEX RBOB (Usc/g)	166	2.22	25.50			LME Nickel (US\$/t)	17,210	-0.66	60.99		
NYMEX NG (US\$/mmbtu)	2.43	-2.96	-17.41								
TTF Natural Gas (EUR/MWh)	12.04	0.80	-45.21			CBOT Corn (Usc/bu)	373	-0.47	-0.67		
						CBOT Wheat (Usc/bu)	484	1.47	-3.78		
API2 Coal (US\$/t)	64	1.11	-25.03			CBOT Soybeans (Usc/bu)	889	-0.08	0.68		
Newcastle Coal (US\$/t)	68	1.58	-33.43			ICE No.11 Sugar (Usc/lb)	11.63	-1.44	-3.33		
SGX TSI Coking Coal (US\$/t)	136	0.26	-35.88			ICE Arabica (Usc/lb)	101	-0.10	-0.98		
SGX Iron Ore 62% (US\$/t)	88.72	2.06	27.71			ICE London Cocoa (GBP/t)	1,944	1.36	10.08		

Source: Bloomberg, ING Research

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