The Commodities Feed: Tighter times ahead

Your daily roundup of commodity news and ING views

Energy

It was a strong end to the week for oil markets, with ICE Brent settling back above US$26/bbl. Sentiment in the oil market has improved with signs that we are slowly starting to see a recovery in demand, suggesting that the worst of demand destruction is behind the market. We are now entering a phase where we should see global supply edging lower. OPEC+ production cuts started on Friday, and this should see 9.7MMbbls/d of oil taken off the market over May and June. Algeria's energy minister, who currently holds the OPEC presidency, has urged members to comply with the deal and to exceed 100% compliance.

In the coming months, there will also be meaningful cuts from outside OPEC+, with some US producers announcing further cutbacks. While starting in June, Norway will implement production cuts through until year-end. A combination of demand edging higher as we move through the remainder of the year, while supply is expected to slip, will likely push the global oil market into deficit over the second half of this year, allowing it to draw down the significant stock builds from the first half of this year.

Metals

The World Gold Council in its latest quarterly update showed that gold demand rose marginally by 1% YoY to 1,084t in 1Q20, as huge ETF inflows and decent central bank purchases covered the demand loss from other consuming sectors. Looking at a breakdown of demand, total jewellery demand contracted sharply by 39% YoY to 326t in 1Q20, as record gold prices and Covid-19 reduced the appetite in most consuming nations. Jewellery demand from the top two consumers - India and China - remained weak in 1Q20, and posted YoY declines of 41% and 65% respectively. Total bar and coin demand also remained weak, falling 6% YoY to 242t in 1Q20.

In contrast to jewellery demand, total central bank purchases for the first quarter came in at 145t, compared to 108t in the previous quarter. In the quarters ahead, we are likely to see central bank buying ease, with Russia halting purchases of locally mined gold. In comparison, ETF purchases continued to soar, attracting huge inflows due to uncertain global economic conditions, resulting from Covid-19. Total ETF inflows in 1Q20 stood at 298t, compared to 25t in 4Q19 and 43t during the same quarter last year.

On the supply side, global gold production was also impacted by Covid-19, as many major producers halted operations temporarily following lockdown restrictions. Mine production dropped 3% YoY to 796t in 1Q20, down from 909t in the previous quarter. Secondary supply also fell 4% YoY to 280t during the first three months of the year. Overall the global gold market was left with a marginal deficit of 29t over the first quarter, compared to a surplus of 34t during the same quarter last year.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**26.44**	4.63	-59.94
NYMEX WTI (US$/bbl)	**19.78**	4.99	-67.61
ICE Gasoil (US$/t)	**220**	-7.07	-64.17
NYMEX HO (Usc/g)	**80**	8.77	-60.75
Eurobob (US$/t)	**188**	16.32	-67.52
NYMEX RBOB (Usc/g)	**77**	9.82	-54.87
NYMEX NG (US$/mmbtu)	**1.89**	-3.03	-13.66
TTF Natural Gas (EUR/MWh)	**5.84**	-6.08	-51.51
API2 Coal (US$/t)	**49**	-1.10	-19.05
Newcastle Coal (US$/t)	**52**	-2.15	-24.11
SGX TSI Coking Coal (US$/t)	**106**	-1.53	-25.00
SGX Iron Ore 62% (US$/t)	**80.43**	-2.41	-11.93

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,700.4**	0.83	12.07
Spot Silver (US$/oz)	**15.0**	0.05	-16.11
LME Copper (US$/t)	**5,110**	-1.51	-17.23
LME Aluminium (US$/t)	**1,487**	-0.50	-17.85
LME Zinc (US$/t)	**1,914**	-1.34	-15.78
LME Nickel (US$/t)	**11,955**	-1.94	-14.76
CBOT Corn (Usc/bu)	**312**	0.00	-19.66
CBOT Wheat (Usc/bu)	**522**	-1.56	-6.67
CBOT Soybeans (Usc/bu)	**847**	-0.35	-10.15
ICE No.11 Sugar (Usc/lb)	**10.97**	5.58	-18.26
ICE Arabica (USc/lb)	**104**	-0.19	-19.47
ICE London Cocoa (GBP/t)	**1,973**	-2.57	8.47

Source: Bloomberg, ING Research

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