

The Commodities Feed: Trade trumps fundamentals

Your daily roundup of commodity news and ING views



Energy

Oil prices continued to edge higher yesterday, with ICE Brent settling almost 1% higher on the day. This strength was despite the fact that the API reported that US crude oil inventories increased by 3.64MMbbls over the last week, which was very different from the 878Mbbls drawdown the market was expecting, according to a Bloomberg survey. Yet again, it appears that it was trade talk news which was the key driver behind yesterday's price action. Investors were given another dose of optimism, with comments from President Trump suggesting that negotiations for phase one of the trade deal with China were nearing completion. This news clearly overshadowed API numbers for the oil market initially, but looking ahead to today, the more widely followed EIA report will be released, and if the numbers are similar to the API, this would be the fifth straight week of stock builds, and would not be the most constructive reading for WTI as we head into the Thanksgiving holiday.

Moving away from US inventory numbers, Bloomberg reports that the Russian Energy Minister, Alexander Novak, plans to meet domestic oil producers on Thursday, ahead of the OPEC+ meeting in Vienna next week. There will likely be question marks around what the Russians would be willing to accept in terms of deeper and prolonged cuts - a similar theme we see in the lead up to most OPEC+ meetings. Then as we mentioned yesterday, OPEC's Economic Commission Board is scheduled to meet today and tomorrow, where the outcome will likely be a recommendation to

OPEC ministers on what they should do in terms of cuts. This recommendation is not binding, and ministers do not need to follow this advice.

Finally, yesterday we spoke about the weakness in West Canada Select differentials due to the temporary shutdown of the Keystone pipeline, and more recently due to the rail strike in Canada. As a result, the Alberta government has decided to keep its oil production limit unchanged at 3.81MMbbls/d in January. Although with the week-long rail strike having ended with a tentative deal, we should see some firming in WCS differentials moving forward.

Metals

“Final throes of a deal” push metals higher: The market focus for base metals has once again returned to headlines around trade talk developments, and sentiment has improved as we see renewed optimism around the phase one deal, following comments from President Trump that the US is in the “final throes” of a deal with China. Both LME aluminium and copper settled almost 1% higher yesterday following these comments. Aluminium received a bit of an extra boost, after a small dip in LME stockpiles yesterday, brought an end to the recent surge we have seen in inventories. Turning to copper, and fundamentals appear to be trapped between faltering supply (mine supply), and weak demand. Although market participants appear to be largely ignoring these fundamentals, and instead focusing on ongoing trade talks and macro developments. Looking ahead, the market awaits Chinese October power grid investment data. There are hopes for an improvement in the last quarter of the year, which would be aligned with what we have seen in previous years.

Agriculture

Growing sugar deficit: The International Sugar Organization yesterday revised higher its deficit outlook for the 2019/20 season to 6.1mt, a 28% increase from their previous forecast. Key drivers behind this change were lower than expected output from Thailand and the US. In recent weeks, we have seen raw sugar prices trending higher, and this shouldn't come as too much of a surprise as the global sugar market transitions from a surplus to deficit environment. While we continue to hold a mildly constructive view on global sugar prices, we do believe the threat of a large amount of Indian sugar exports will likely cap the market. While as we move into 2020, we are likely to see sugar continuing to trade below ethanol parity levels, in order to ensure that mills in CS Brazil continue to maximize ethanol production over sugar- this would allow bloated inventories to be drawn down.

Meanwhile, UNICA, the CS Brazilian sugarcane industry body released production numbers yesterday for 1H November, which showed that the industry in the region crushed 19.8mt of sugarcane over the fortnight, down 7.6% YoY, while the decline in sugar production was even greater, falling 11.3% YoY to just 786kt. This steeper fall was a result of the industry continuing to maximize the ethanol mix, given the more favourable prices.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	64.27	0.97	19.46	Spot Gold (US\$/oz)	1,461.4	0.42	13.95
NYMEX WTI (US\$/bbl)	58.41	0.69	28.63	Spot Silver (US\$/oz)	17.1	1.10	10.21
ICE Gasoil (US\$/t)	590	1.16	15.42	LME Copper (US\$/t)	5,924	0.95	-0.69
NYMEX HO (Usc/g)	196	0.84	16.65	LME Aluminium (US\$/t)	1,753	0.98	-5.04
Eurobob (US\$/t)	586	0.18	22.09	LME Zinc (US\$/t)	2,299	0.79	-6.81
NYMEX RBOB (Usc/g)	170	1.79	28.78	LME Nickel (US\$/t)	14,595	0.79	36.53
NYMEX NG (US\$/mmbtu)	2.47	-2.41	-15.99	CBOT Corn (Usc/bu)	368	-0.81	-2.00
TTF Natural Gas (EUR/MWh)	15.85	-2.39	-27.90	CBOT Wheat (Usc/bu)	530	-0.14	5.37
API2 Coal (US\$/t)	60	-0.67	-29.52	CBOT Soybeans (Usc/bu)	884	-0.92	0.20
Newcastle Coal (US\$/t)	69	-0.29	-31.71	ICE No.11 Sugar (Usc/lb)	12.78	-0.31	6.23
SGX TSI Coking Coal (US\$/t)	139	-0.61	-34.37	ICE Arabica (Usc/lb)	116	-1.78	13.60
SGX Iron Ore 62% (US\$/t)	87.12	-2.20	25.41	ICE London Cocoa (GBP/t)	2,056	0.34	16.42

Source: Bloomberg, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.