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
ICE Brent (US$/bbl)	**64.27**	0.97	19.46
NYMEX WTI (US$/bbl)	**58.41**	0.69	28.63
ICE Gasoil (US$/t)	**590**	1.16	15.42
NYMEX HO (Usc/g)	**196**	0.84	16.65
Eurobob (US$/t)	**586**	0.18	22.09
NYMEX RBOB (Usc/g)	**170**	1.79	28.78
NYMEX NG (US$/mmbtu)	**2.47**	-2.41	-15.99
TTF Natural Gas (EUR/MWh)	**15.85**	-2.39	-27.90
API2 Coal (US$/t)	**60**	-0.67	-29.52
Newcastle Coal (US$/t)	**69**	-0.29	-31.71
SGX TSI Coking Coal (US$/t)	**139**	-0.61	-34.37
SGX Iron Ore 62% (US$/t)	**87.12**	-2.20	25.41

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,461.4**	0.42	13.95
Spot Silver (US$/oz)	**17.1**	1.10	10.21
LME Copper (US$/t)	**5,924**	0.95	-0.69
LME Aluminium (US$/t)	**1,753**	0.98	-5.04
LME Zinc (US$/t)	**2,299**	0.79	-6.81
LME Nickel (US$/t)	**14,595**	0.79	36.53
CBOT Corn (Usc/bu)	**368**	-0.81	-2.00
CBOT Wheat (Usc/bu)	**530**	-0.14	5.37
CBOT Soybeans (Usc/bu)	**884**	-0.92	0.20
ICE No.11 Sugar (Usc/lb)	**12.78**	-0.31	6.23
ICE Arabica (USc/lb)	**116**	-1.78	13.60
ICE London Cocoa (GBP/t)	**2,056**	0.34	16.42

Source: Bloomberg, ING Research

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