

The Commodities Feed: Under pressure

Your daily roundup of commodity news and ING views



Energy

The downward pressure on the oil market is relentless, with ICE Brent having settled below US\$60/bbl yesterday and trading in the red this morning. The Wuhan virus continues to weigh on sentiment, with concerns over the impact it will have on fuel demand due to travel restrictions within China, along with any spillover across the region. It is not just the oil market that is under pressure - the Bloomberg commodity index has fallen by 4.5% over the last week or so. Concerns are also unsurprisingly reflected in refinery margins, which continue to trade at depressed levels. In fact the spot gasoil crack in NW Europe is trading under US\$10/bbl now- levels last seen in early 2017. The weakness in gasoil cracks has surprised many, given the broadly constructive view held due to IMO 2020 shipping regulations.

The week ahead is fairly quiet in terms of data releases, and the market is likely to continue

focusing on any developments regarding the Wuhan virus. Today the API will release its weekly inventory report, and market expectations are that US crude oil inventories increased by 300Mbbbls over the week. Meanwhile a build of 1.5MMbbbls is expected in gasoline, and a 1MMbbblsd stock draw is expected for distillate fuel oil.

Moving on from the oil and products market, Asian LNG prices continue to move lower, with North Asian prices trading at US\$4/MMBtu. As we move through winter and into the shoulder months, one would expect that we could see even further downward pressure on LNG prices as peak heating demand passes. Global supply continues to ramp up. recently Freeport LNG in the US started commercial operations at its second train, and expects its third train to start up in May this year. Ramping up export capacity comes at a time when Chinese demand growth has slowed, whilst a milder winter has offered little support to spot prices. This all suggests that 2020 will likely be another year of weakness for the Asian LNG market and for the European gas market.

Metals

Base metals and other risk assets saw further selling pressure as the spreading of the Wuhan virus raised doubts over China's attempts to contain the virus. The Bloomberg Metal Index continued its bearish streak for the seventh straight day, with all base metals trading in the red. Copper prices fell by more than 3%, touching an intra-day low of US\$5,726/t yesterday, the lowest since mid-October 2019. Technically, the market has flipped from overbought to oversold in just a couple of days following the virus outbreak. The market largely ignored LME inventory data yesterday which showed outflows of 2.8kt. Market participants will have to wait a while longer to see how domestic markets in China react to latest developments, with SHFE set to only resume trading on 3 February. The government has extended the Lunar New Year Holiday in order to try and reduce the spread of the virus.

LME data shows that lead cancelled warrants jumped by 5.2kt to 153kt yesterday (the highest since July), while inventories remained flat at 66kt. The sudden jump in cancelled warrants could result in inventory drawdowns in coming days. The LME Lead cash/3m spread also tightened further, reaching a backwardation of US\$26.50/t yesterday; indicating a tighter physical market. Prior to this move, the spread had been in contango since the start of the year. Recently, the International Lead and Zinc Study Group reported that the lead market remained in a deficit of 33kt between January and November of 2019.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	59.32	-2.26	-10.12	Spot Gold (US\$/oz)	1,582.1	0.67	4.27
NYMEX WTI (US\$/bbl)	53.14	-1.94	-12.97	Spot Silver (US\$/oz)	18.1	0.00	1.38
ICE Gasoil (US\$/t)	512	-4.57	-16.69	LME Copper (US\$/t)	5,743	-3.09	-6.98
NYMEX HO (Usc/g)	168	-3.14	-17.20	LME Aluminium (US\$/t)	1,764	-0.95	-2.54
Eurobob (US\$/t)	568	-0.57	-1.60	LME Zinc (US\$/t)	2,240	-4.31	-1.41
NYMEX RBOB (Usc/g)	148	-2.06	-12.59	LME Nickel (US\$/t)	12,615	-2.59	-10.05
NYMEX NG (US\$/mmbtu)	1.90	0.48	-13.11				
TTF Natural Gas (EUR/MWh)	10.53	0.68	-12.65	CBOT Corn (Usc/bu)	381	-1.74	-1.87
				CBOT Wheat (Usc/bu)	572	-0.22	2.42
API2 Coal (US\$/t)	50	0.70	-7.31	CBOT Soybeans (Usc/bu)	897	-0.53	-4.85
Newcastle Coal (US\$/t)	68	-0.81	-2.17	ICE No.11 Sugar (Usc/lb)	14.21	-1.25	5.89
SGX TSI Coking Coal (US\$/t)	153	0.00	8.13	ICE Arabica (Usc/lb)	107	-3.22	-17.81
SGX Iron Ore 62% (US\$/t)	85.19	-6.42	-6.71	ICE London Cocoa (GBP/t)	1,955	0.46	7.48

Source: Bloomberg, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@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.