

The Commodities Feed: US Gulf production shut-ins

Your daily roundup of commodity news and ING views



Energy

Oil is trading marginally higher in early trading in Asia this morning, with hurricane activity in the US Gulf of Mexico providing some support. Hurricane Marco, is closely followed by Tropical Storm Laura, in the region, and producers have started to shut offshore rigs as a result of the storms. According to the Bureau of Safety and Environmental Enforcement (BSEE), as of yesterday 57.6% of US Gulf of Mexico oil production had been shut in, which is equivalent to a little over 1MMbbls/d of production. While there is a focus on oil production at the moment, we will need to keep an eye on refining activity, which is vulnerable to flooding. The US Gulf is a key refining hub, with almost 54% of US capacity sitting in PADD3, and we do not have to look very far back to see the potential disruption to refining activity due to hurricanes. In 2017, hurricane Harvey saw run rates in the country fall from more than 96% to less than 77%, which led to a strong rally in refined product cracks. Although given the large amount of refined product stocks at the moment, the market would likely be able to handle any disruptions to refined product supply better this time around.

Meanwhile, the latest data from Baker Hughes shows that the US rig count jumped by 11 to total 183, which is the largest weekly increase seen since January. It is difficult to take away too much from one data point, and clearly we would need to wait several weeks to see if this is a trend that

continues.

Metals

Last week's Norsk Hydro Alunorte curtailment gave a lift to alumina prices. Australia FOB prices led the gains, rising by almost US\$25/t over the week, whilst the increase in the China market has been relatively moderate so far. The curtailment should tighten alumina supply and continue to support spot alumina prices, while the China market may react with a lag. However, the timing and the scale of the move will largely depend on how quickly and to what extent additional capacity (restarts as well as new) may ramp up in the near term. The latest CFTC data show that speculators increased their net long position in COMEX copper by 13,567 lots over the last reporting week, leaving them with a net long of 60,974 lots as of last Tuesday. Whilst for precious metals, speculators increased their net long in COMEX gold by 5,145 lots, to leave them with a net long of 155,274 lots as of last Tuesday.

Agriculture

Speculators are appearing to become more constructive on the agri complex, possibly on the back of strong buying from China, along with weather concerns in the US. The latest CFTC data shows that money managers did quite a bit of buying over the last reporting week in both soybeans and corn. Managed money net longs in CBOT soybeans increased by a massive 80,194 lots over the last week, mostly on account of new longs, which left the net long position at 107,058 lots as of last Tuesday, the largest position in over two years. Money managers reduced their net shorts from 172,361 lots to 110,499 lots in CBOT corn over the week.

Meanwhile, the Soybean Processors Association of India expects soybean production in the country to increase 32% YoY to 12.3mt in 2020 as higher prices and favourable weather push farmers to increase soybean acreage. The higher domestic output should reduce demand for imported oil/oilseeds into the country.

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 <http://www.ing.com>.