

The Commodities Feed: US/ Iran tensions linger

Your daily roundup of commodity news and ING views



Energy

Oil has already started giving back some of its recent gains. After trading as high as US\$70.74/bbl early yesterday, ICE Brent settled at US\$68.91/bbl for the day. The market continues to await any signs or hints on how Iran may retaliate to last week's US airstrike. Meanwhile the US State Department has warned that Saudi oil facilities are at risk of attack, which brings back concerns that we could see a repeat of September's supply events.

Fears over supply disruptions are not isolated to Saudi Arabia though, with worries also over Iraqi supply. President Trump yesterday threatened "very big sanctions" against Iraq, after Iraq's parliament voted over the weekend to expel foreign troops, following the US airstrike at Baghdad airport. Any oil related sanctions would be a concern, given that Iraq is OPEC's second largest producer, while a withdrawal of foreign troops from the country may increase fears of further instability in the region. Chevron has already pulled out its foreign workers from Iraq's Kurdistan region, which comes after the US advised all US citizens to leave Iraq. While this does sound all fairly constructive for oil prices, we still believe in the absence of retaliation or disruptions, that oil prices will trend lower over the course of 1Q20, with the market remaining well supplied over the first half of 2020.

Moving on from Middle East tensions, and later today the API will release its weekly inventory numbers for the US. Market expectations are that US crude oil inventories fell by 3MMbbls over the last week. While on the product side, gasoline and distillate fuel oil inventories are expected to increase by 3.3MMbbls and 3.7MMbbls respectively.

Metals

Unsurprisingly gold continues to find good support, given developments in the Middle East. Although for now, the move to safe haven assets is not reflected in ETF holdings, with total known gold holdings having increased by just 58koz over the last two days to total 81.62moz. Meanwhile, delayed CFTC data show that speculators bought 20,251 lots of COMEX gold over the last reporting week, leaving them with a net long of 263,170 lots as of last Tuesday - levels last seen in September. The current speculative net long, however, will likely be significantly larger, given the shift towards safe haven assets in the last few days. Meanwhile, palladium hit a fresh high of almost US\$2,033/oz yesterday, with the underlying fundamentals for the metal remaining bullish, whilst also benefiting from the broader move in the precious metals complex.

Moving on, and iron ore remains well supported, trading at levels also last seen in September. This strength appears to be a result of stronger Chinese demand, as mills increase operating rates on the back of improved profitability. Bloomberg data shows that steel profit margins rose to a six month high of CNY 300+ per tonne in December, and have remained firm around these levels since then. Meanwhile, rebar inventories in China remain significantly below the 5 year average, and so there are expectations that steel mills will increase output over 1Q20 in order to rebuild inventory.

Daily price update

| | Current | % DoD ch | %YTD ch | | Current | % DoD ch | %YTD ch |
|------------------------------|---------|----------|---------|--------------------------|---------|----------|---------|
| ICE Brent (US\$/bbl) | 68.91 | 0.45 | 4.41 | Spot Gold (US\$/oz) | 1,565.7 | 0.87 | 3.19 |
| NYMEX WTI (US\$/bbl) | 63.27 | 0.35 | 3.62 | Spot Silver (US\$/oz) | 18.2 | 0.51 | 1.68 |
| ICE Gasoil (US\$/t) | 620 | -0.88 | 0.98 | LME Copper (US\$/t) | 6,139 | 0.15 | -0.57 |
| NYMEX HO (Usc/g) | 203 | -1.33 | 0.28 | LME Aluminium (US\$/t) | 1,833 | 0.49 | 1.27 |
| Eurobob (US\$/t) | 610 | 0.30 | 5.68 | LME Zinc (US\$/t) | 2,325 | 0.80 | 2.31 |
| NYMEX RBOB (Usc/g) | 175 | 0.32 | 3.33 | LME Nickel (US\$/t) | 13,820 | 0.47 | -1.46 |
| NYMEX NG (US\$/mmbtu) | 2.14 | 0.23 | -2.47 | | | | |
| TTF Natural Gas (EUR/MWh) | 12.28 | -5.43 | 1.90 | CBOT Corn (Usc/bu) | 385 | -0.45 | -0.77 |
| | | | | CBOT Wheat (Usc/bu) | 550 | -0.81 | -1.57 |
| API2 Coal (US\$/t) | 55 | -0.36 | 1.76 | CBOT Soybeans (Usc/bu) | 933 | 0.24 | -1.09 |
| Newcastle Coal (US\$/t) | 69 | -0.57 | 0.36 | ICE No.11 Sugar (Usc/lb) | 13.73 | 3.16 | 2.31 |
| SGX TSI Coking Coal (US\$/t) | 149 | 2.07 | 5.65 | ICE Arabica (Usc/lb) | 122 | -3.32 | -5.82 |
| SGX Iron Ore 62% (US\$/t) | 92.83 | 0.38 | 1.65 | ICE London Cocoa (GBP/t) | 1,789 | -2.19 | -1.65 |

Source: Bloomberg, ING Research

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