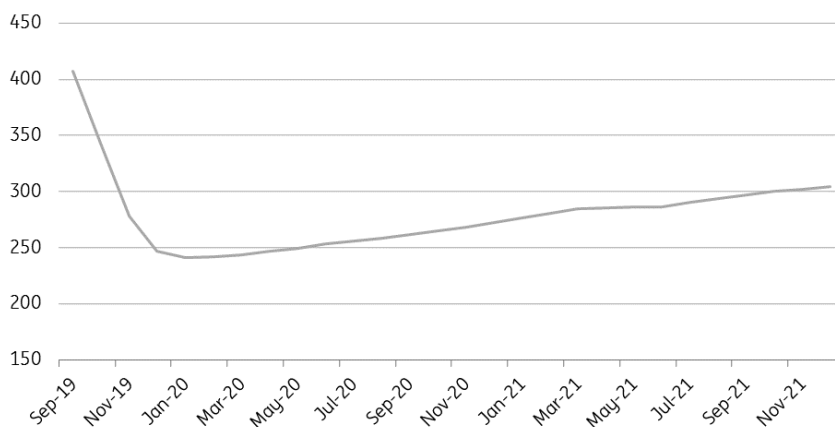


The Commodities Feed: US oil inventories grow

Your daily roundup of commodity news and ING views



Singapore 380 cst fuel oil forward curve (US\$/t)



Source: Bloomberg

Energy

US oil inventories & gasoline cracks: The oil market has come under renewed pressure this morning, with ICE Brent now trading below US\$63/bbl. This follows the API report yesterday which

showed US crude oil inventories increased by 1.38MMbbls over the last week compared to market expectations of a 600Mbbbls drawdown. As we pointed out yesterday, lower refinery run rates in the Gulf due to Tropical Storm Imelda put at risk expectations for a drawdown. The market will be watching closely today to see whether the more widely followed EIA inventory numbers are similar.

Asian fuel oil: Having seen the 380 cst fuel oil Oct/Nov spread strengthen to a backwardation of over US\$80/t in mid-September, this backwardation has weakened in recent days, falling just below US\$62/t currently. The front end of the forward curve remains well backwardated, and this is no surprise given the upcoming IMO shipping regulations, and the expected fall we will see in demand for high sulphur fuel oil towards the end of this year, and into 2020. The fuel oil cracks are also reflecting this upcoming legislation, with the 380 cst/ Brent cracks over 1Q20 already trading at around a US\$20/bbl discount.

However for now, the strong backwardation at the front end of the curve is likely to keep the prompt market tight, with it restricting flows from Europe.

Metals

Gold ETF holdings: There is no let up in gold investment demand despite higher prices. Investors remain jittery about rising geopolitical and economic uncertainty, and continue to turn towards safe haven assets such as gold. ETF holdings have increased by 1.1mOz over the past week, with total known holdings increasing to a fresh six-year high of 80.2mOz as of 24 September – year-to-date ETF inflows stand at around 9mOz. The recent tension in the Middle East has only increased the attractiveness of gold for investors. Moving forward, investors will be watching the US/China trade talks scheduled for early October for further clues on economic prospects and the direction of monetary policy.

Agriculture

CS Brazil sugar output & recent price strength: The latest biweekly report from UNICA shows that sugar production in Brazil's Centre-South region dropped 5.6% year-on-year to 2.04mt in the first half of September. Sugar cane crushing increased 2% YoY to 39.5mt. However, mills continue to favour ethanol production over sugar, with just 35.1% of cane going towards sugar production, which compares to 37.3% for the same period last year. Meanwhile, cumulative sugar production for the 19/20 season stands at 20mt, which is 4.9% lower YoY, while the cumulative cane crush is up 1.2% YoY to stand at 437.7mt. As a result of this strong allocation to ethanol, UNICA expects that full season sugar production will fall 1mt YoY, which would leave production for the season at 25.5mt for 19/20.

The sugar market has seen quite the move higher since mid-September, rallying almost 7%. Concerns over the Indian crop, the strong allocation of cane to ethanol in Brazil, a return to a global deficit and a somewhat stronger whites premium would have likely got the record net spec short nervous, and so we have likely seen a large amount of short covering in recent days. We continue to hold a cautiously optimistic view on the sugar market- while the global market is set to return to deficit in 19/20, there is still plenty of inventory to draw down.

Daily price update

| | Current | % DoD | ch | %YTD | ch | | Current | % DoD | ch | %YTD | ch |
|------------------------------|---------|-------|----|--------|----|--------------------------|---------|-------|----|-------|----|
| ICE Brent (US\$/bbl) | 63.1 | -2.58 | | 17.29 | | Spot Gold (US\$/oz) | 1,531.9 | 0.63 | | 19.44 | |
| NYMEX WTI (US\$/bbl) | 57.29 | -2.30 | | 26.16 | | Spot Silver (US\$/oz) | 18.6 | -0.17 | | 20.09 | |
| ICE Gasoil (US\$/t) | 606 | -0.98 | | 18.65 | | LME Copper (US\$/t) | 5,780 | 0.03 | | -3.10 | |
| NYMEX HO (Usc/g) | 197 | -1.47 | | 17.06 | | LME Aluminium (US\$/t) | 1,763 | -1.26 | | -4.52 | |
| Eurobob (US\$/t) | 590 | -0.52 | | 22.96 | | LME Zinc (US\$/t) | 2,282 | -2.12 | | -7.50 | |
| NYMEX RBOB (Usc/g) | 165 | -1.75 | | 24.98 | | LME Nickel (US\$/t) | 17,180 | -1.66 | | 60.71 | |
| NYMEX NG (US\$/mmbtu) | 2.50 | -0.95 | | -14.86 | | CBOT Corn (Usc/bu) | 375 | 0.40 | | -0.07 | |
| TTF Natural Gas (EUR/MWh) | 12.34 | 0.78 | | -43.87 | | CBOT Wheat (Usc/bu) | 482 | -0.26 | | -4.27 | |
| API2 Coal (US\$/t) | 64 | -2.35 | | -23.97 | | CBOT Soybeans (Usc/bu) | 894 | 0.20 | | 1.33 | |
| Newcastle Coal (US\$/t) | 67 | -0.15 | | -33.58 | | ICE No.11 Sugar (Usc/lb) | 11.50 | 2.50 | | -4.41 | |
| SGX TSI Coking Coal (US\$/t) | 133 | 3.77 | | -37.20 | | ICE Arabica (Usc/lb) | 99 | 0.15 | | -2.65 | |
| SGX Iron Ore 62% (US\$/t) | 87.00 | -3.71 | | 25.23 | | ICE London Cocoa (GBP/t) | 1,869 | -0.64 | | 5.83 | |

Source: Bloomberg, ING Research

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