

The Commodities Feed: US oil stocks swell

Your daily roundup of commodity news and ING views



Source: Shutterstock

US crude oil inventories (MMbbls)



Source: EIA, ING Research

Energy

US oil numbers: The EIA yesterday reported a surprise crude oil build of 2.21MMbbls over the last week, which was quite different to the 1MMbbls drawdown the market was expecting, but still less than the 4.85MMbbls that the API reported the previous day. This has taken total US crude oil inventories to above 485MMbbls, which is the highest level since July 2017. Cushing inventories increased by 2.1Mmbbls over the week- taking stocks in the WTI delivery hub to almost 53MMbbls- levels last seen in December 2017. These large stock builds are weighing on prompt WTI spreads, with the Jul/Aug spread deep in carry- trading at a US\$0.26/bbl discount this morning. This spread was trading around flat in early May.

The report was clearly bearish for the flat price, however the market is stronger this morning after reports of an incident involving tankers in the Gulf of Oman.

Looking ahead, we do still expect these crude builds to reverse, with the expectation that refinery run rates will pick up as we move through the summer. Over the last week, refinery utilisation rates increased by 1.4 percentage points to 93.2%- still some distance from the 97.2% achieved in late December.

US crude oil exports over the week averaged 3.12MMbbls/d, which is also the third consecutive week that oil exports have exceeded 3MMbbls/d. The general weakness that we have seen in the WTI/Brent spread is certainly helping to support these larger export volumes.

Market releases: The rest of this week will see a number of important market releases, starting with the OPEC monthly report today. The market will be watching closely to see how Saudi production performed over the month of May. The range of other estimates is roughly between 9.65MMbbls/d and a little over 10MMbbls/d for the month, which compares to 9.8MMbbls/d in April, but still well below the agreed production level of around 10.3MMbbls/d.

Then on Friday, the IEA will release its monthly oil market report, and the market will be looking closely to see if the agency makes any changes to its demand growth forecasts. In its last report, the agency revised lower its demand growth forecasts by 90Mbbbls/d to 1.3MMbbls/d for 2019. This revision was concentrated in 1Q19, with little change to the agency's outlook for the remainder of the year.

Metals

Zinc treatment charges: Spot treatment charges for zinc concentrate in China inched up further to US\$275/t this week compared to US\$265/t last week. Zinc smelting fees have increased nearly 67% since the start of the year, indicating an improvement in zinc concentrate supply. However oddly, these higher TCs have not translated into higher refined output, with Chinese refined zinc output down 7% year-on-year to 1.77mt over the first four months of 2019. But this is largely due to capacity cuts related to environmental restrictions and plant upgrades. With treatment charges rising, smelters will be keen to increase throughput rates as soon as possible, which should mean further refined supply over the second half of the year.

Chile copper strike: Workers at Codelco's Chuquicamata mine are set to strike from Friday, after unions and Codelco failed to come to an agreement. The Chuquicamata mine produced 321kt of copper last year. This has the potential to tighten up the concentrate market further, depending on how long strike action lasts. Spot Chinese treatment charges have fallen for much of this year,

suggesting that the concentrate market is already tightening.

Agriculture

Cocoa floor price: Top cocoa producers Ivory Coast and Ghana have agreed to set a floor price of US\$2,600/t for the 2020/21 crop in an effort to bring additional and stable revenues for cocoa farmers in the respective countries. Floor prices are nearly 1% above current prices and nearly 12% above the YTD average price of US\$2,313/t. Setting floor prices should be supportive to the cocoa market in short term; however, higher prices risks bringing further supply onto the market in the longer term.

Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	59.97	-3.72		11.47		Spot Gold (US\$/oz)	1,333.6	0.51		3.98	
NYMEX WTI (US\$/bbl)	51.14	-4.00		12.62		Spot Silver (US\$/oz)	14.8	0.23		-4.62	
ICE Gasoil (US\$/t)	559	0.00		9.50		LME Copper (US\$/t)	5,852	-0.41		-1.89	
NYMEX HO (Usc/g)	178	-2.32		5.90		LME Aluminium (US\$/t)	1,790	0.67		-3.03	
Eurobob (US\$/t)	590	-1.92		22.97		LME Zinc (US\$/t)	2,509	0.10		1.70	
NYMEX RBOB (Usc/g)	169	-4.00		27.38		LME Nickel (US\$/t)	11,841	-0.37		10.77	
NYMEX NG (US\$/mmbtu)	2.39	-0.54		-18.84		CBOT Corn (Usc/bu)	430	0.53		14.67	
TTF Natural Gas (EUR/MWh)	11.14	-0.54		-49.31		CBOT Wheat (Usc/bu)	526	1.59		4.57	
API2 Coal (US\$/t)	54	-2.08		-37.00		CBOT Soybeans (Usc/bu)	878	2.18		-0.51	
Newcastle Coal (US\$/t)	73	-4.09		-28.35		ICE No.11 Sugar (Usc/lb)	12.62	0.64		4.90	
SGX TSI Coking Coal (US\$/t)	194	0.00		-8.49		ICE Arabica (USc/lb)	99	2.11		-2.75	
SGX Iron Ore 62% (US\$/t)	102.29	-0.54		47.24		ICE London Cocoa (GBP/t)	1,853	0.93		4.93	

Source: Bloomberg, ING Research

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>.