The Commodities Feed: US pressures the Saudis

Your daily roundup of commodity news and ING views

Energy

The oil market has been fairly well supported over the last few days, with hopes that the US Congress will approve a US$2 trillion stimulus package. Meanwhile the US administration is also putting increased pressure on Saudi Arabia to take a step back from the ongoing price war with Russia. This comes ahead of an emergency G20 meeting today, where there will likely be pressure on the Saudis to stabilise oil markets, particularly at the moment. The issue for the oil market is that even if we do see some restraint from the Saudis, the world is still set to see a significant oil surplus over 2Q20, given the demand hit we are currently seeing. This suggests that any potential action would likely only stabilise prices, rather than push the market significantly higher. Our base case view is that the price war continues over the upcoming quarter, which would see ICE Brent moving towards US$20/bbl over 2Q20.

Meanwhile the EIA released its weekly report yesterday which showed that US crude oil inventories increased by 1.62MMbbls over the last week, which was less than the 3MMbbls build the market was expecting, but still more bearish than the 1.25MMbbls drawdown the API reported the previous day. Meanwhile the draws in gasoline and distillate fuel oil were also less than the market was expecting. Surprisingly, refinery utilisation rates increased by 0.9 percentage points over the week.

Meanwhile over the same period, demand for refined products fell by 2.1MMbbls/d. Weaker demand shouldn't be too much of a surprise, given the current environment. Looking ahead, refinery utilisation rates should start to edge lower, with a number of refiners cutting rates on the back of weaker margins and poorer demand.

Moving away from oil, and the demand picture for LNG continues to look fragile. Reuters reports that Indian LNG buyers have issued force majeure notices, following the country lockdown which has weighed on demand, and disrupted port operations. In 2019, India made up around 6.5% of total global LNG demand, and it is a strong growth market, with imports over the first two months of this year up 62% YoY. Meanwhile there are also reports that some buyers in Europe are considering force majeure for prompt cargoes. This step is similar to what we saw in China during the peak of the Covid-19 outbreak there. This news will do little to help spot LNG prices, which are already trading below US$3/MMBtu.

Metals

Gold prices continue to hold around the US$1,600/oz level, with the market awaiting the US Congress to pass a US$2 trillion stimulus package. Meanwhile base metals were a mixed bag yesterday, but LME copper managed to edge higher on hopes of the stimulus plan passing.

In data releases, the latest trade data from Chinese customs shows that imports of copper concentrate declined by 14% YoY to 3.76mt during the first two months of the year with the slowing smelter runs in the nation. Whereas, refined copper imports rose to 601kt over the same period, up 8.4Y% YoY. In other metals, China's imports of refined zinc fell 39% YoY to 54kt, whilst exports surged by 573% YoY to 8.8kt in the first two months of the year. Meanwhile, in aluminium, as per the SMM's recent survey, Chinese aluminium smelters expanded output cuts to 440ktpa due to the virus outbreak. However, the this failed to provide any immediate support to falling prices.

Turning to ferrous metals, iron ore futures extended gains yesterday with prices trading above US$80/t level comfortably supported by expectations of a potential supply deficit in 2020 as many major producing countries announce complete lockdowns. It is estimated that approx. 80mt of iron ore supply could be impacted due to border controls and lockdowns in countries. Meanwhile, the latest trade data from Chinese customs shows that, Chinese iron ore imports rose by 1.5% YoY to 177mt in the first two months of the year. Imports from Australia totaled 107mt (+0.8% YoY), while Brazilian shipments fell 13% YoY to 36mt over the same time period.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com