

The Commodities Feed: US rig count slides

Your daily roundup of commodity news and ING views



Oil prices have sold off aggressively

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Energy

Oil traded to new recent lows this morning, with ICE Brent hitting a low of US\$23.03/bbl in early morning trading. The bearishness in the market continues to grow, and any hopes of an end to the Saudi-Russia price war came to an abrupt halt over the weekend with comments from the Saudis saying that they have had no contact with Russia regarding production cuts. The scale of the surplus over 2Q20 is enormous, given the demand-destruction and failure of OPEC+ to extend and deepen the production cut deal. This will mean that significant volumes will need to be carried forward, and in order to see that, the forward curve needs to cover the carry-cost for this oil. Looking at the ICE Brent May/June spread, it has traded to a contango as deep as US\$3.80/bbl this morning - levels last seen during the Global Financial Crisis in 2008. Meanwhile, the 12-month carry on ICE Brent is even deeper, with it trading in excess of US\$15/bbl.

The latest US rig data from Baker Hughes also shows a significant reduction in the number of active rigs in the country, with the total falling by 40 over the week to just 624. This is the largest weekly decline in the rig-count since April 2015 and highlights the impact that the current low price environment is having on the US oil industry. This reduced rig activity should start to feed

through to production numbers in the coming months.

Elsewhere, Bloomberg reports that the Indian government has advised domestic refiners to declare force majeure on oil imports with plunging domestic demand as a result of the country shutdown. Given that India is the third-largest crude oil importer in the world - with flows averaging a little over 4.5MMbbls/d in 2019, it is an important development to watch in the market. This also follows reports from Reuters last week of Indian LNG buyers issuing force majeure notices.

Finally, the latest Commitment of Traders data show that speculators sold 21,413 lots over the last reporting week in ICE Brent to leave them with a net long of just 57,092 lots as of last Tuesday - levels last seen in 2014. The reduction in this net-long was driven by longs liquidating rather than fresh shorts. In fact the gross speculative short decreased over the week, suggesting some profit-taking from the shorts.

Metals

The latest data from the Shanghai Futures Exchange (SHFE) show that stocks for all major metals declined, a sign that we are starting to see an improvement in manufacturing activity and downstream demand. Copper inventories at exchange warehouses fell by 13kt over the week to total 364kt as of 27th March. For the current month, net inflows of copper stand at 19kt, compared to inflows of 34kt over the same month last year. Looking at other metals, SHFE aluminium and zinc stocks also declined by 6kt and 8kt respectively. The standout though is lead, where stocks declined by 38% week on week. Turning to ferrous metals, and the latest Steelhome data show that Chinese iron ore port inventories declined by 2.6mt over the week, with total stocks standing at 121mt as of 27 March. Net outflows in March stand at 5mt, compared to net inflows of 2mt during the same time last year.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	24.93	-5.35	-62.23	Spot Gold (US\$/oz)	1,628.2	-0.19	7.31
NYMEX WTI (US\$/bbl)	21.51	-4.82	-64.77	Spot Silver (US\$/oz)	14.5	0.44	-18.96
ICE Gasoil (US\$/t)	300	-1.15	-51.10	LME Copper (US\$/t)	4,791	-0.28	-22.41
NYMEX HO (Usc/g)	107	1.73	-47.32	LME Aluminium (US\$/t)	1,546	0.62	-14.61
Eurobob (US\$/t)	269	0.31	-53.41	LME Zinc (US\$/t)	1,878	0.97	-17.34
NYMEX RBOB (Usc/g)	57	5.50	-66.21	LME Nickel (US\$/t)	11,355	1.28	-19.04
NYMEX NG (US\$/mmbtu)	1.63	-0.18	-25.35	CBOT Corn (Usc/bu)	346	-0.79	-10.77
TTF Natural Gas (EUR/MWh)	7.22	-4.71	-40.10	CBOT Wheat (Usc/bu)	571	0.40	2.24
API2 Coal (US\$/t)	53	-1.85	-6.01	CBOT Soybeans (Usc/bu)	882	0.14	-6.52
Newcastle Coal (US\$/t)	72	2.14	3.77	ICE No.11 Sugar (Usc/lb)	11.10	-2.03	-17.29
SGX TSI Coking Coal (US\$/t)	148	0.78	4.81	ICE Arabica (Usc/lb)	116	-7.06	-10.68
SGX Iron Ore 62% (US\$/t)	83.09	-0.98	-9.01	ICE London Cocoa (GBP/t)	1,785	-1.33	-1.87

Source: Bloomberg, ING Research

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