The Commodities Feed: USD strength weighs on the complex

Your daily roundup of commodity news and ING views

Energy

Oil has come under renewed pressure this morning, with rising Covid-19 cases in parts of Europe not great for sentiment, while a stronger US dollar is not helping. A resurgence in cases could prove to be a stumbling block for the demand recovery, although any lockdowns moving forward are likely to be more targeted and localised.

Meanwhile overnight, the API reported that US crude oil inventories increased by just 691Mbbls over the last week, however it was on the product side where large draws were seen, with gasoline and distillate fuel oil stocks falling by 7.74MMbbls and 2.1MMbbls, respectively. Later today, the EIA will be releasing its more widely followed numbers, and according to a Bloomberg survey, expectations are for crude oil inventories to have fallen by 3.27MMbbls over the last week.

Moving on, and Libya's National Oil Corporation has lifted further force majeures, with the most recent at Zueitina port. The situation in Libya appears to be developing fairly quickly, and the National Oil Corporation expects that oil output in the country will reach 260Mbbls/d by next week, up from the 100Mbbls/d they have been producing in recent months. Obviously this is still some distance away from pre-export blockade levels when the country was pumping around 1MMbbls/d.

In the current environment, where there are clear concerns over demand, additional supply will do little to help rebalance the market.

Finally, Bloomberg reports that a number of independent refiners in China are requesting additional crude oil import quotas for 4Q20, after having used up the bulk of their quota earlier in the year. Chinese buyers took advantage of weaker prices earlier in the year to stock up, however with Chinese buying having dried up recently, this has weighed on the physical market. Further quota allocations to refiners in China over the fourth quarter could provide some needed support to the market.

Metals

Precious metals continued to trade lower, with gold prices trading below the US$1,900/oz mark this morning after closing at the lowest level in two months yesterday. The sharp rise in the USD index, which has reached the highest level since July has weighed on gold more recently. Meanwhile, total known ETF holdings for gold remained almost flat and posted marginal daily outflows of 61koz, which took total known holdings to 110.9moz as of 22 September. Turning to silver mine supply, Pan American Silver Corp. is all set to restart mining operations at its Morococha and Huaron mines in Peru as the Covid-19 infections eased. The restart is expected to bring back production capacity to 80% by next week.

Prices of all major base metals remained in negative territory due to the rising macro uncertainties along with the stronger USD. LME copper declined by more than 1% and broke below US$6,700/t level in the morning session. Looking at the LME cash/3m spread, the current backwardation for copper eased to US$28/t yesterday, after testing the highs of US$40/t (highest since March 2019) at the end of last week.

Meanwhile, latest data from the International Lead and Zinc Study Group (ILZSG) shows that the global zinc market was in a supply surplus of 265kt over the first seven months of the year, compared to a supply deficit of 141kt during the same period last year. Total production remained almost flat at 7.7mt, whilst total consumption fell 5% year-on-year to 7.4mt over the said period. As for Lead, total production declined 3.1% YoY to 6.5mt, while consumption fell 5.4% YoY to 6.4mt from Jan'20-Jul'20. The lead market encountered a surplus of 128kt over the first seven months of 2020, compared to a deficit of 31kt during the same time last year.

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