

The Commodity Feed: Improved market sentiment on trade optimism

Your daily roundup of commodity news and ING views



Oil prices have sold off aggressively

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Energy

Oil prices – Oil prices saw a recovery yesterday as geopolitical tensions in the Middle East escalated further after the US imposed new sanctions on Iran, this time targeting the shipping network controlled by the Iranian Revolutionary Guard to put pressure on shipping activity from the country. Further support came from reports that Russia will lower output in September (after increasing it in August) and that China and the US will hold trade talks next month. Meanwhile, the weekly report from API was not very bullish, reporting that US crude oil stocks increased by 401Mbbbls over the last week, compared to market expectations for a 4MMbbbls inventory withdrawal. Turning to products, the API reported that both gasoline and middle distillate stocks fell by 877Mbbbls and 1.19MMbbbls, respectively. The more widely followed EIA data is scheduled to be released later today.

Fuel oil cracks – With the IMO bunkering deadline approaching, demand for high sulphur fuel oil has been drying up fast as shippers prepare to use low-sulphur fuel oil, starting 2020. The HSFO crack spread in North-West Europe dropped to at least a five-year low of negative US\$21.3/bbl yesterday with the gasoil/HSFO price ratio increasing to 2.4 currently. Around 2MMbbbls/d of HSFO

demand could shift towards gasoil/VLSFO in 2020 and could create big surpluses for HSFO in the global market post-2020. The crack spread for 1% FO also dropped to a year-to-date low of negative US\$8.7/bbl, though it's not as bad as HSFO. The 1% FO could still be blended with very low sulphur marine gasoil to make the compliant blend.

Metals

Zinc price rebound - Industrial metals prices have seen some recovery amid a weaker dollar index on Wednesday and trade talk optimism. Zinc has seen a strong technical rebound against an overall bearish fundamental outlook. LME 3M zinc prices posted a strong gain by closing 4.7% higher. The LME inventory movement has re-embarked on a declining trend and has given up almost all the inflows gained during April and May. Low stock levels in the LME market have remained a support to prices. Meanwhile, we've noticed that frontend spreads tightened again over the last couple of days although they look moderate so far. This is likely to be driven by the recent large concentration of dominant warrant holdings that have reappeared. Last Friday (Aug 30), there was one entity holding a large concentration of warrants in the cash contract and the tom-next contract. The latest data available from Monday (Sep 2) still shows one entity holding around 50%-79% concentration of warrants. It seems that there has been some push around frontend activities in the market after Teck's announcement on equipment failure at its Trail operation on August 26.

Agriculture

Brazil corn exports – Corn shipments from Brazil soared to a fresh record high of 7.6mt (+171% YoY) in August 2019 with YTD exports up 147% YoY to 22.7mt on the back of a bumper crop and weaker Brazilian real. The real has depreciated by around 10% since the July highs (and 6% YTD) and has added to the competitiveness of Brazilian products on the international market. Higher shipments from Brazil are likely to continue weighing on demand for US corn this year. On the other hand, Brazilian soybean exports were down 34% YoY to 5.3mt in August 2019 and down 9.5% YoY to 58.5mt in the year till date despite record production due to higher domestic crushing and softer demand in importing markets.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	60.7	4.19	12.83	Spot Gold (US\$/oz)	1,552.6	0.35	21.06
NYMEX WTI (US\$/bbl)	56.26	4.30	23.89	Spot Silver (US\$/oz)	19.6	1.73	26.47
ICE Gasoil (US\$/t)	574	4.17	12.38	LME Copper (US\$/t)	5,748	2.46	-3.64
NYMEX HO (Usc/g)	188	4.26	11.86	LME Aluminium (US\$/t)	1,775	1.25	-3.85
Eurobob (US\$/t)	561	3.09	17.02	LME Zinc (US\$/t)	2,310	4.76	-6.36
NYMEX RBOB (Usc/g)	153	4.24	15.80	LME Nickel (US\$/t)	18,000	0.08	68.38
NYMEX NG (US\$/mmbtu)	2.45	3.69	-16.84				
TTF Natural Gas (EUR/MWh)	11.96	-1.16	-45.60	CBOT Corn (Usc/bu)	346	-1.07	-7.73
				CBOT Wheat (Usc/bu)	456	2.01	-9.34
API2 Coal (US\$/t)	60	-0.41	-28.63	CBOT Soybeans (Usc/bu)	863	0.70	-2.27
Newcastle Coal (US\$/t)	68	0.15	-32.99	ICE No.11 Sugar (Usc/lb)	11.01	-1.61	-8.48
SGX TSI Coking Coal (US\$/t)	155	-0.31	-26.85	ICE Arabica (Usc/lb)	93	1.14	-8.30
SGX Iron Ore 62% (US\$/t)	87.87	2.50	26.49	ICE London Cocoa (GBP/t)	1,690	0.96	-4.30

Source: Bloomberg, ING

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