



# Commodities Daily

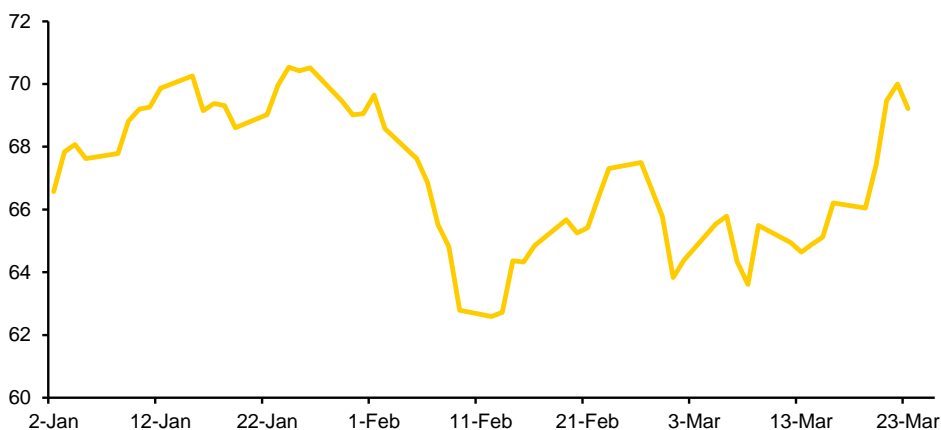
23 March 2018

## Fear of trade war between US and China

**Energy:** Shrugging off the negative market sentiment, oil prices made further gains after a brief correction phase yesterday. Overnight, Brent has regained the \$70 per barrel mark for the first time since late January. Prices were boosted by comments by Saudi Arabian Energy Minister al-Falih who said that the production cuts could also remain in force in 2019. He also pointed out that stocks had not yet reached their normal level. A decision about this is to be taken at OPEC's next meeting in June. If the seven-year average were to be used as the reference in future, as reported yesterday, the deviation of stocks would be more pronounced. If al-Falih believes it necessary to maintain the cuts in 2019, he is essentially conceding that OPEC has no scope for raising production, in our opinion. This rather is not a positive signal for oil prices. US President Trump not only put punitive tariffs into force against China and other countries yesterday (see Base metals on Page 2), but also replaced his National Security Advisor. McMaster is to be succeeded by former UN Ambassador Bolton – he already held a State Department position in Bush junior's administration and is regarded as a hawk in terms of foreign policy. This makes new US sanctions against Iran even more likely. Although Trump has exempted the EU and other countries from the punitive tariffs on steel and aluminium for the time being, he may attempt to make any permanent exemption from the tariffs contingent on participation in new Iran sanctions. After all, the US alone would have virtually no impact on Iranian oil production because it does not import any oil from Iran.

**Precious metals:** Various crises are pushing gold up above \$1,340 per troy ounce this morning. Gold has thus gained almost \$40 as compared with its low at the start of the week. First and foremost, it is the looming trade dispute between the US and China (see Base metals on Page 2) that is generating higher demand for gold as a safe haven. This is because it is causing stock markets worldwide to fall, bond yields to decline and the US dollar to weaken – all of these being factors that are positive for gold. What is more, US President Donald Trump now appears set after all to replace his former National Security Advisor Herbert Raymond McMaster with foreign policy hardliner John Bolton (see Energy above). This change could make new sanctions on Iran more likely, which no doubt would further unsettle market participants and lend support in turn to gold. Silver is being pulled up by gold, but has not made disproportionate gains. The falling base metals prices are presumably having a braking effect here, as silver is used primarily in industry. The gold/silver ratio has therefore climbed to over 81 again. Platinum is also recovering somewhat from the losses it incurred yesterday. All the same, the price gap between gold and platinum has widened this morning to \$385 per troy ounce – the highest discount on platinum as vis-à-vis gold since platinum exchange trading began in 1987.

### CHART OF THE DAY: Brent back at \$70 per barrel



Source: Bloomberg, Commerzbank Research

Head of Commodity Research

**Eugen Weinberg**

+49 69 136 43417

eugen.weinberg@commerzbank.com

Analyst

**Carsten Fritsch**

+49 69 136 21006

carsten.fritsch@commerzbank.com

Analyst

**Barbara Lambrecht**

+49 69 136 22295

barbara.lambrecht@commerzbank.com

Analyst

**Michaela Kuhl**

+49 69 136 29363

michaela.kuhl@commerzbank.com

Analyst

**Daniel Briesemann**

+49 69 136 29158

daniel.briesemann@commerzbank.com

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**Base metals:** Weak US stock markets and very weak Asian stock markets amid the looming trade conflict between the US and China are weighing on metals prices this morning. While the losses suffered by base metals have not been excessive so far, steel and iron ore prices slumped by over 7% for a time. US President Donald Trump signed a decree yesterday that would see tariffs imposed on imports of various Chinese products worth a total of up to \$60 billion. In response, the Chinese Ministry of Commerce has announced that it intends to levy tariffs on US imports initially worth \$3 billion. This could lead to a trade war. US tariffs on steel and aluminium imports come into force today, though in heavily diluted form – the US Administration has exempted key trading partners such as the EU, Australia, South Korea, Argentina and Brazil from the tariffs, initially until 1 May, by which time a permanent solution is to be agreed with these countries. Canada and Mexico had already been exempted from the tariffs beforehand. Thus four of the five largest steel suppliers to the US are not initially affected by the tariffs. Countries that now face tariffs on steel include Russia, Japan, Turkey, Taiwan, India and China. Key aluminium suppliers to the US that will now be subjected to tariffs include Russia, the Arab Gulf States, India, South Africa, Venezuela and China.

**Agriculturals:** China has reacted to the punitive tariffs imposed by the US with the first retaliatory tariffs (see Base metals above). These also affect imports of some agricultural products from the US, such as pork, nuts, fresh fruits and wine, though not soybeans or cotton. US farmers should not be overly pleased about this, as the possibility of this still happening at a later date cannot be ruled out if the trade conflict further escalates. As we wrote yesterday, however, China's options are limited when it comes to finding alternative soybean suppliers. The situation would be easier for cotton because China has significantly reduced its imports in recent years and can also fall back on substantial domestic stocks.

The International Grains Council (IGC) has issued its first full forecasts for 2018/19. The figures show that global grain stocks are set to decline by 46 million tons, the inventory reduction affecting corn almost exclusively (-42 million tons). Global wheat stocks are expected to decrease only by a marginal 3 million tons. And this despite the fact that global corn production is supposed to increase by 7 million tons year-on-year while global wheat production should fall by 17 million tons. However, global corn demand is set to grow considerably, whereas global wheat demand should stagnate. The IGC envisages a global soybean supply deficit of 4 million tons.

## Prices

Energy 1)	current	1 day	1 week	1 month	1 year
Brent Blend	68.9	-0.8%	4.5%	2.8%	37%
WTI	64.3	-1.3%	3.9%	1.9%	36%
Gasoline	612.3	-0.2%	4.9%	2.2%	31%
Gasoil	607.3	-0.6%	4.4%	2.3%	35%
Diesel	604.3	-0.8%	5.9%	3.6%	36%
Jet fuel	650.8	-0.7%	6.0%	0.7%	36%
Natural gas (\$/mmBtu)	2.62	-0.8%	-2.8%	-0.5%	-14%
EUA (€/ton)	12.34	-2.5%	10.2%	25.5%	147%
Base metals 2)					
Aluminum	2075	-0.3%	-0.8%	-3.4%	7%
Copper	6695	-1.4%	-2.9%	-5.7%	15%
Lead	2368	-1.3%	-1.3%	-7.1%	-1%
Nickel	13190	-2.0%	-4.5%	-5.4%	30%
Tin	20850	-0.7%	-1.3%	-4.3%	2%
Zinc	3203	-1.4%	-1.3%	-8.1%	14%
Precious metals 3)					
Gold	1329.0	-0.3%	2.1%	1.0%	8%
Gold (€/oz)	1080.3	0.1%	1.7%	0.7%	-6%
Silver	16.4	-1.1%	1.2%	0.1%	-6%
Platinum	948.8	-0.9%	0.5%	-4.2%	-1%
Palladium	984.9	-0.6%	-1.0%	-6.1%	23%
Agriculturals 1)					
Wheat (LIFFE, €/t)	163.5	0.5%	-1.2%	0.0%	-3%
Wheat CBOT	455.8	0.6%	1.2%	0.9%	8%
Corn	376.0	0.5%	0.5%	0.6%	6%
Soybeans	1029.8	0.2%	0.9%	-1.5%	4%
Cotton	82.2	-0.5%	-1.7%	1.1%	6%
Sugar	12.77	0.2%	1.1%	-5.0%	-27%
Coffee Arabica	119.0	0.1%	0.2%	-1.6%	-16%
Cocoa (ICE NY)	2535	0.4%	0.0%	18.1%	17%
Currencies 3)					
EUR/USD	1.2302	-0.3%	0.3%	0.3%	14%

## Inventories

Energy *	current	1 day	1 week	1 month	1 year
Crude oil	428306	-	-0.6%	1.9%	-20%
Gasoline	243065	-	-0.7%	-2.5%	0%
Distillates	131044	-	-1.5%	-5.7%	-16%
Ethanol	23758	-	-2.2%	4.4%	5%
Crude oil Cushing	29423	-	3.2%	-1.9%	-57%
Natural gas	1446	-	-5.6%	-17.8%	-31%
Gasoil (ARA)	2952	-	-0.9%	-2.4%	-4%
Gasoline (ARA)	1287	-	-1.7%	-4.1%	9%
Base metals **					
Aluminum LME	1276375	-0.2%	-2.3%	-4.1%	-35%
Shanghai	940318	-	0.7%	15.8%	188%
Copper LME	317750	-0.5%	-1.2%	-4.4%	0%
COMEX	232138	-0.3%	-0.6%	1.4%	67%
Shanghai	307435	-	3.5%	40.7%	-2%
Lead LME	130825	0.1%	0.1%	15.1%	-31%
Nickel LME	324870	-0.3%	0.0%	-3.4%	-15%
Tin LME	1975	1.8%	19.0%	6.2%	-47%
Zinc LME	211225	0.0%	2.5%	49.8%	-44%
Shanghai	159347	-	1.1%	38.7%	-14%
Precious metals ***					
Gold	72899	0.0%	0.8%	1.0%	8%
Silver	657081	0.0%	0.6%	1.1%	2%
Platinum	2459	0.0%	-0.1%	-0.8%	1%
Palladium	1133	-0.1%	-0.1%	-2.0%	-27%

Source: DOE, PJK, LME, COMEX, SHFE, Bloomberg, Commerzbank Research

Percentage change on previous period

<sup>1)</sup> 1 month forward, <sup>2)</sup> 3 months forward, <sup>3)</sup> spot

Crude oil in USD per barrel, oil products, base metals and cocoa in USD per ton,

Precious metals in USD per troy ounce, grains and soybeans in US cents per bushel,

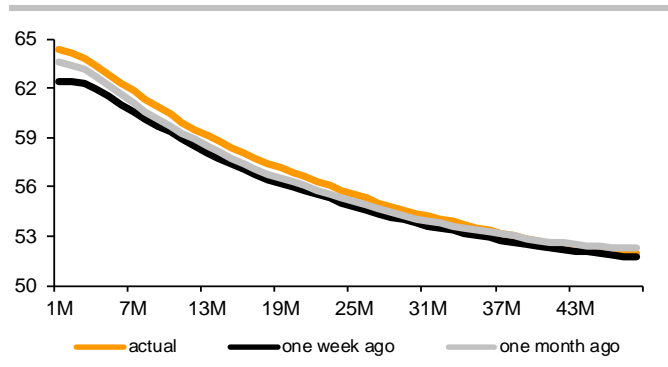
Cotton, sugar and coffee Arabica in US cents per pound

\* US inventories of crude oil, oil products and ethanol in '000 barrel,

US natural gas inventories in billion cubic feet, ARA stocks in '000 tons

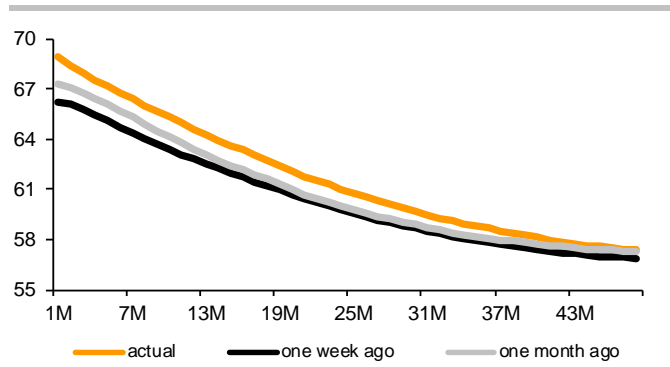
\*\* tons, \*\*\* ETF holdings in '000 ounces

GRAPH 1: Forward curve oil market (WTI)



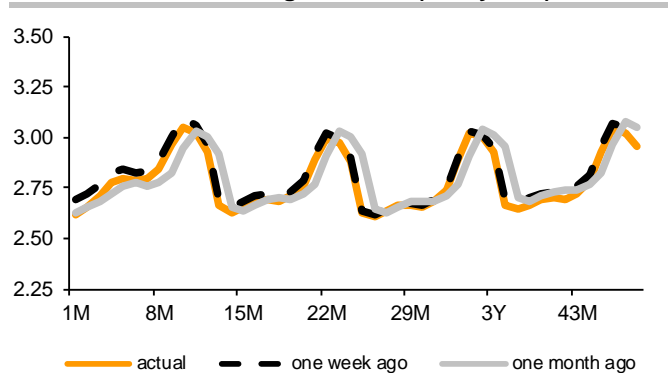
Source: NYMEX; Bloomberg, Commerzbank Research

GRAPH 2: Forward curve oil market (Brent)



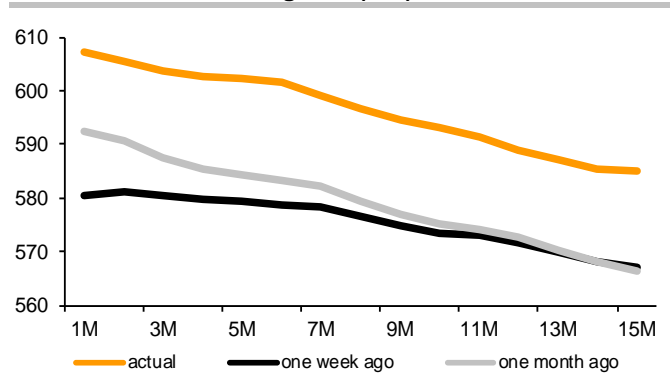
Source: ICE; Bloomberg, Commerzbank Research

GRAPH 3: Forward curve gas market (Henry Hub)



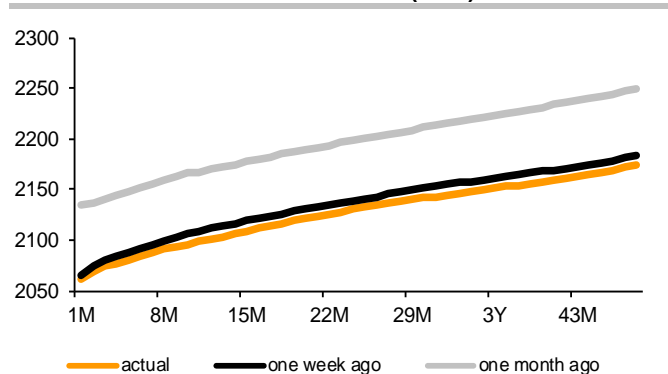
Source: NYMEX; Bloomberg, Commerzbank Research

GRAPH 4: Forward curve gasoil (ICE)



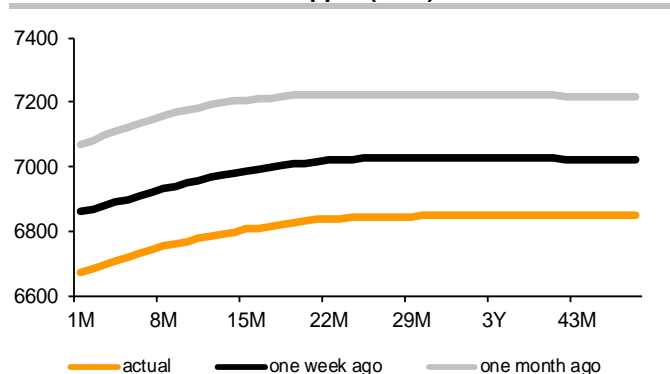
Source: ICE; Bloomberg, Commerzbank Research

GRAPH 5: Forward curve aluminium (LME)



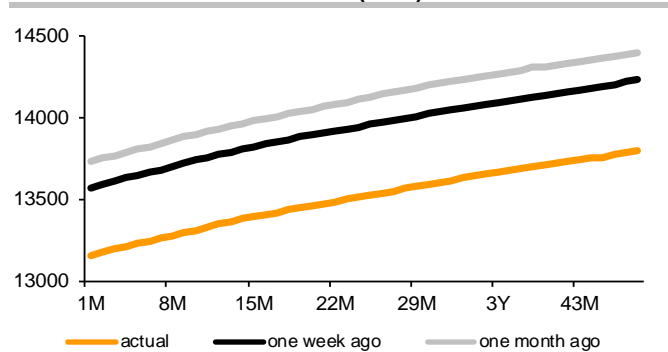
Source: LME; Bloomberg, Commerzbank Research

GRAPH 6: Forward curve copper (LME)



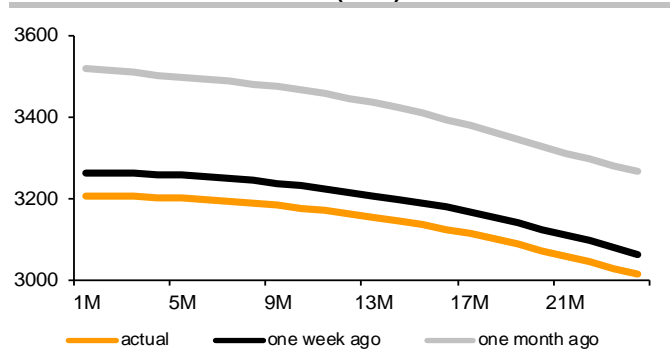
Source: LME; Bloomberg, Commerzbank Research

GRAPH 7: Forward curve nickel (LME)



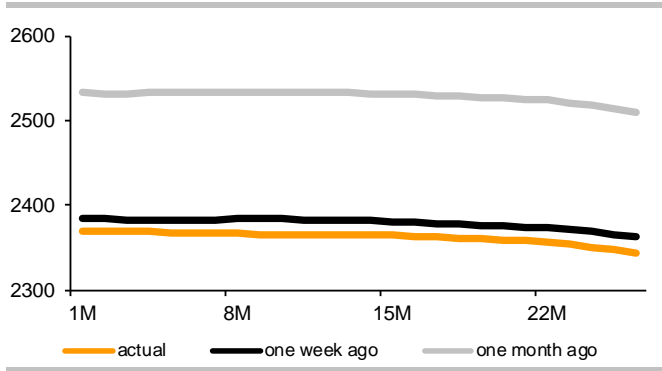
Source: LME; Bloomberg, Commerzbank Research

GRAPH 8: Forward curve zinc (LME)



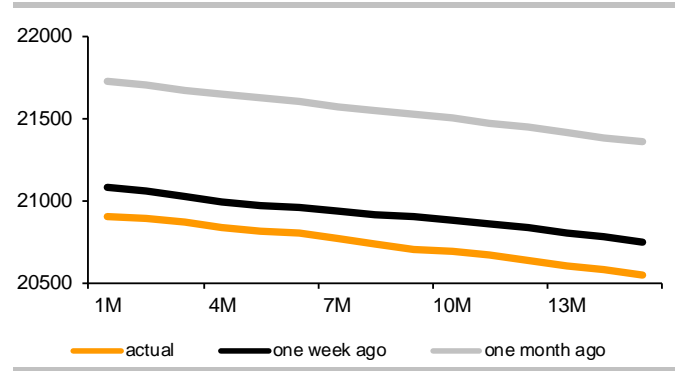
Source: LME; Bloomberg, Commerzbank Research

GRAPH 9: Forward curve lead (LME)



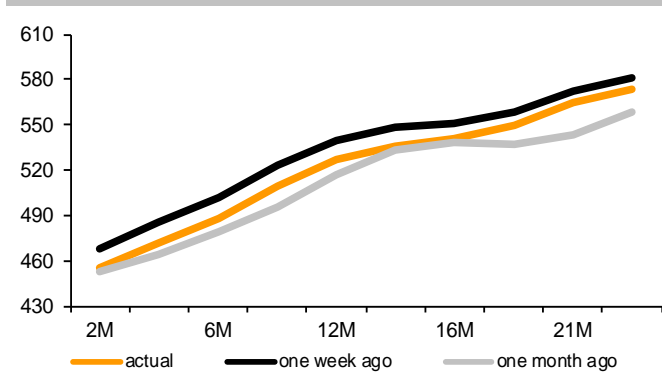
Source: LME; Bloomberg, Commerzbank Research

GRAPH 10: Forward curve tin (LME)



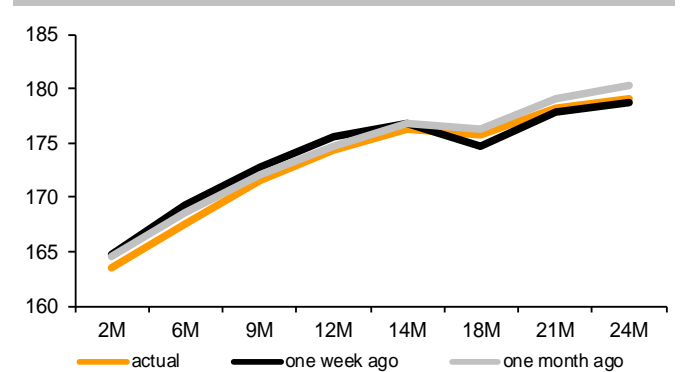
Source: LME; Bloomberg, Commerzbank Research

GRAPH 11: Forward curve wheat (CBOT)



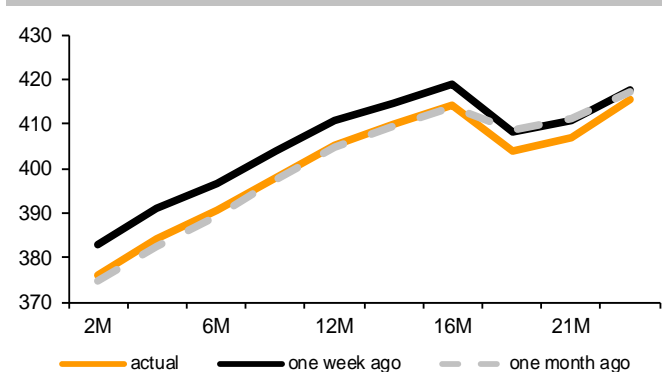
Source: CBOT; Bloomberg, Commerzbank Research

GRAPH 12: Forward curve wheat (MATIF)



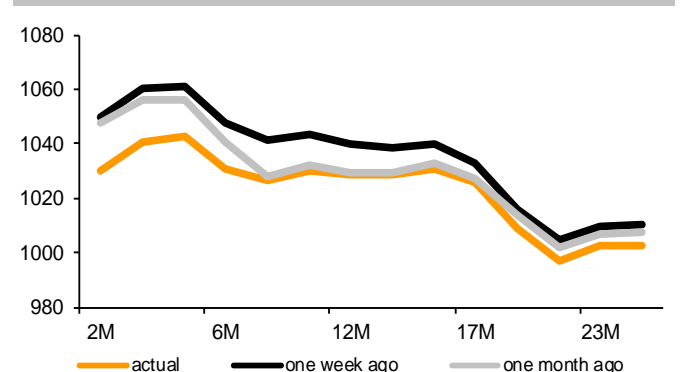
Source: MATIF; Bloomberg, Commerzbank Research

GRAPH 13: Forward curve corn (CBOT)



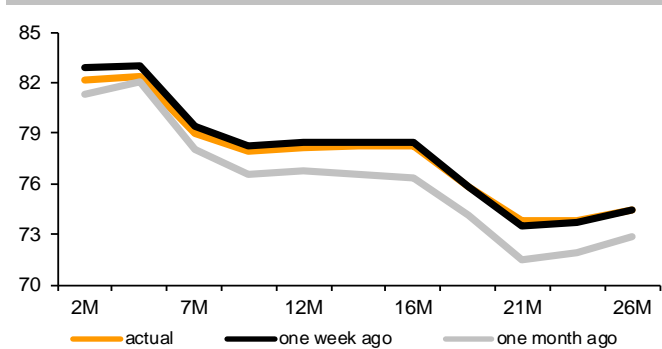
Source: CBOT; Bloomberg, Commerzbank Research

GRAPH 14: Forward curve soybeans (CBOT)



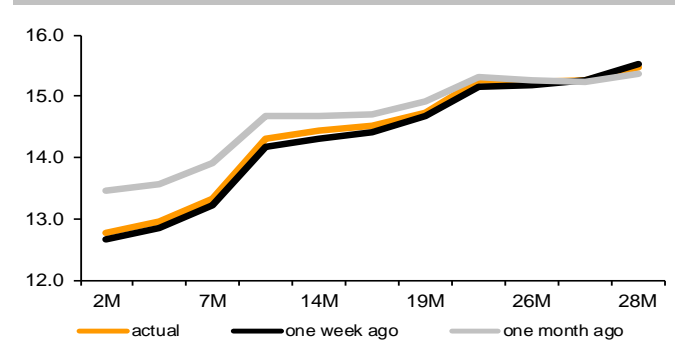
Source: CBOT; Bloomberg, Commerzbank Research

GRAPH 15: Forward curve cotton (NYBOT)



Source: NYBOT; Bloomberg, Commerzbank Research

GRAPH 16: Forward curve sugar (NYBOT)



Source: NYBOT; Bloomberg, Commerzbank Research

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**Commerzbank Corporate Clients**

**Frankfurt**

Commerzbank AG

DLZ - Gebäude 2, Händlerhaus  
Mainzer Landstraße 153  
60327 Frankfurt

Tel: + 49 69 136 21200

**London**

Commerzbank AG

PO BOX 52715  
30 Gresham Street  
London, EC2P 2XY

Tel: + 44 207 623 8000

**New York**

Commerz Markets LLC

225 Liberty Street, 32nd floor,  
New York,  
NY 10281-1050

Tel: + 1 212 703 4000

**Singapore**

Commerzbank AG

71, Robinson Road, #12-01  
Singapore 068895

Tel: +65 631 10000

**Hong Kong**

Commerzbank AG

15th Floor, Lee Garden One  
33 Hysan Avenue,  
Causeway Bay  
Hong Kong

Tel: +852 3988 0988