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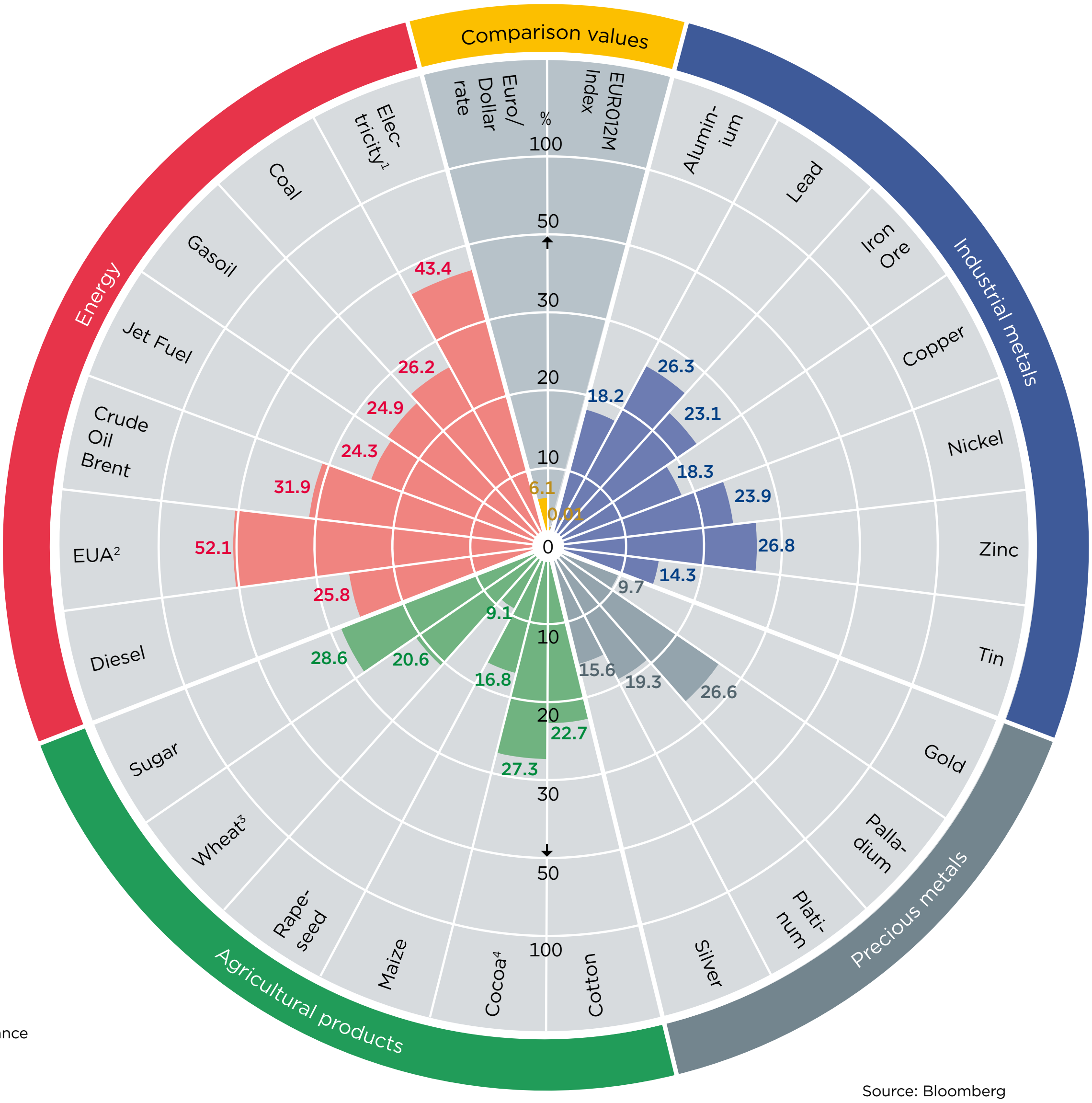
The bank at your side

Volatilities from 22/06/2018 to 21/06/2019



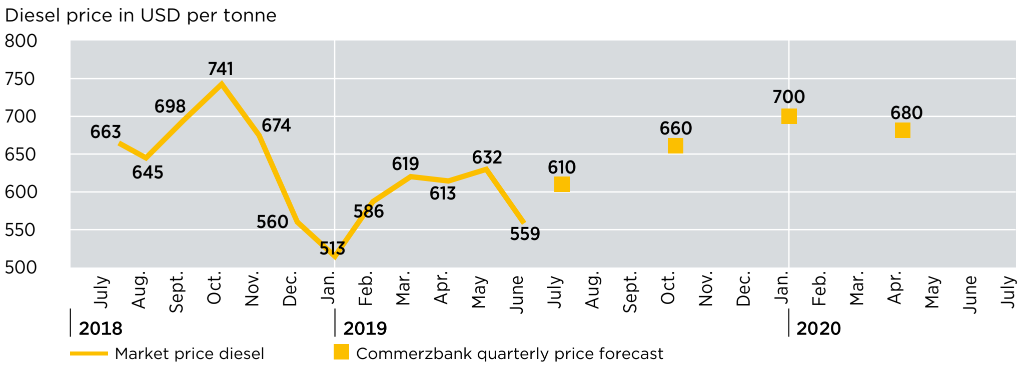
[1] Phelix Baseload
[2] European Emission Allowance
[3] Euronext Milling Wheat
[4] Liffe Cocoa Euronext

Source: Bloomberg

Commerzbank Commodities Radar 2nd Quarter 2019

Following the diesel market's summer blues, a winter boom is looming on the horizon

While fears of a supply shortage dominated the oil market until the beginning of May, concerns about weakening demand in late May and early June saw oil and diesel prices come under sharp pressure. The escalating tension between the US and Iran has recently caused oil prices to rise again.



Source: Bloomberg

The price of diesel dropped from its 6-month high in mid-May to the beginning of June 2019 by almost 20%. This drop cannot be explained by oil market-specific factors, as OPEC's supply is actually tight at present due voluntary production cuts and the loss of Iranian oil as a result of sanctions. The escalation in the Iran-US conflict did send the price of Brent oil back up in the second half of June but, at around USD 65, it remains well below the year-high mark. The same applies for the price of diesel, which is linked to the price of crude oil.

The fact that the price is still only marginally recovering is mainly due to external factors, primarily the intensifying trade conflict between the US and China. This raises concerns that the demand for crude oil might suffer as well as a result. After all, China and the US together account for about one third of the global oil demand and approximately half of the expected increase in demand this year.

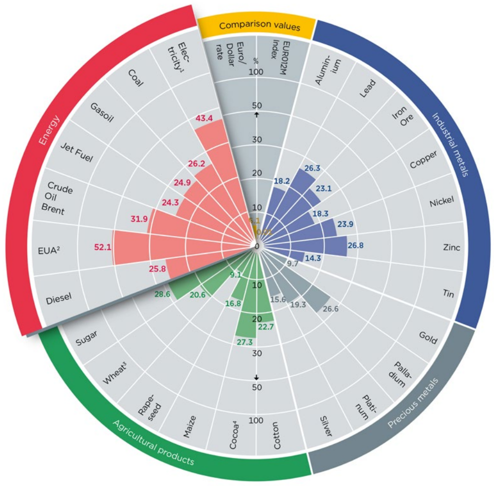
The market is therefore very sensitive to the recently weaker economic data from the three major economic regions, the US, China and Europe. Should global demand for oil grow less strongly than previously expected, a new over supply situation could loom for the end of the year. Demand for OPEC oil will fall noticeably at the end of the year due to rising US oil production. OPEC and its non-OPEC allies ("OPEC+") decided to extend their production cuts by nine months, until the end of March 2020. If the economic environment stabilises, this might support a recovery in the price of Brent oil to USD 70 by the end of the year.

Following the most recent correction, a temporary weakening of the demand for diesel, which is strongly dependent on world trade and associated transport volumes, is also likely to have been factored into the diesel prices on the market. In addition, high Chinese diesel exports have put additional pressure on the crack spread, the pricing difference between diesel and crude oil prices.

Should the concerns about the economy turn out to be exaggerated, we assume that the diesel market will offer a particularly good potential for growth over the next 12 months. One of the reasons: in less than six months' time, the sulphur cap for bunker fuels will fall from 3.5% to 0.5% ("IMO2020"). While ships are currently being retrofitted with filter systems at full speed, just over a seventh of the current demand for bunker fuels will subsequently be able to be covered by the high-sulphur fuel oil without violating the more stringent requirements. A large number of ships will, at least temporarily, switch to the tried-and-tested marine gas oil (MGO) until a new low-sulphur fuel oil is established on the market. Experts therefore expect MGO demand to double to two million barrels per day. Even though marine gas oil is only of subordinate importance in the large middle-distillate market, diesel prices will increase. We therefore expect the price of diesel to rise significantly to USD 700 per tonne at the turn of the year 2019/20.

Source: The above information has been extracted from previous Commerzbank research "Commodity Spotlight Energy" from June/July 2019.
Further information can be found on the Commerzbank Research Portal.

The year's price highs and lows at a glance



	in EUR per unit	
Aluminium per mt	High	1,908.81
	Low	1,528.00
Lead per mt	High	2,051.94
	Low	1,574.10
Iron Ore per mt	High	96.75
	Low	53.58
Copper per mt	High	5,796.23
	Low	5,005.18
Nickel per mt	High	12,469.40
	Low	9,259.95
Zinc per mt	High	2,682.54
	Low	1,966.06
Tin per mt	High	19,302.96
	Low	16,057.93
Gold per troy ounce	High	1,252.71
	Low	1,013.32
Palladium per troy ounce	High	1,408.28
	Low	744.31
Platinum per troy ounce	High	806.95
	Low	672.69
Silver per troy ounce	High	14.13
	Low	12.08

Source: Bloomberg data, period: 22/06/2018 to 21/06/2019

	in EUR per unit	
Cotton per pound	High	0.77
	Low	0.54
Cocoa per mt	High	2,252.23
	Low	1,643.15
Maize per mt	High	200.00
	Low	157.75
Rapeseed per mt	High	384.25
	Low	351.50
Wheat per mt	High	216.25
	Low	168.75
Sugar per pound	High	0.12
	Low	0.08
Diesel per mt	High	648.84
	Low	431.09
EUA per tonne	High	27.53
	Low	15.29
Brent Crude Oil per barrel	High	74.94
	Low	44.23
Jet Fuel per mt	High	687.03
	Low	467.90
Gasoil per mt	High	647.87
	Low	431.12
Coal per mt	High	88.29
	Low	42.96
Electricity per MWh	High	60.84
	Low	30.81

From the perspective of German companies, the listed commodities are generally priced in a foreign currency. For this reason, currency risks need to be considered in addition to commodity price risks.

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