

The Commodities Feed: Market ignores OPEC+ cuts

Oil prices came under further pressure yesterday, despite OPEC+ agreeing on a small supply cut for October. Meanwhile, supply disruption in the metals market continues to grow, with further aluminium supply cuts in Europe due to high energy prices



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Energy- OPEC+ cut does little to support the market

The decision by OPEC+ to cut output by 100Mbbls/d over October does not appear to have had the intended impact on the market. Instead, Brent settled a little over 3% lower yesterday. And this pressure has continued in early morning trading in Asia today. [As we wrote yesterday](#), while on paper the cut is small, in reality, it is even smaller, given that most OPEC+ members are already producing below their target production for October. If this downward pressure continues we cannot rule out OPEC+ holding an emergency meeting, which they have made very clear could happen if necessary.

The Saudis released their official selling prices (OSP) for October and there were some fairly large cuts for Asia and Europe. Arab Light into Asia was lowered by US\$3.95/bbl MoM to US\$5.85/bbl over the benchmark. Expectations were for an even larger reduction, given the narrowing that has

been seen in the Brent/Dubai spread. All other grades into Asia also saw reductions, whilst all grades into Europe were also cut.

It seems that Europe is moving closer toward a gas price cap, as Russia continues to reduce gas flows to the region. According to reports, the European Commission is looking at options including a price cap on gas imported from Russia and a country-by-country cap system, which would depend on a country's energy mix. While price caps may offer some much-needed relief in terms of prices, it will do little to help balance the market through demand destruction. If we look to Spain, which introduced a price cap on gas for the power market earlier in the year, gas demand in June increased by more than 14% MoM and 7% YoY.

Metals - aluminium stocks jump higher

LME exchange inventories for aluminium rose by 31.3kt (the largest daily addition since 10th February) to 308kt yesterday; with the majority of inflows at Malaysia's Port Klang warehouses. These large inflows have put pressure on the market, with prices settling a little more than 1% lower yesterday.

However, this weakness comes despite further aluminium supply cuts in Europe. France's largest aluminium smelter, Aluminium Dunkerque, announced that it will cut production by 20% due to soaring power prices. The smelter, which has a capacity of 285ktpa, is expected to operate at a reduced rate until early next year. In addition, Norsk Hydro said that it will not restart operations at its Karmøy and Husnes plant (after completing maintenance), as demand for the metal remains sluggish. The producer said that "a few tens of thousands of tonnes" could be impacted out of the 1.1mt of aluminium produced annually in Norway. The difficulty in the aluminium market at the moment is trying to balance the number of supply cuts we are seeing with weaker downstream demand.

In mine supply, copper output in Peru fell 1.6% MoM to 195kt in July. The majority of the decline was due to production losses from the Cia Minera Antamina mine (-9.1%) and the Southern Peru Copper Corporation mine (-14.5%). Among other metals, zinc production fell 2.9% YoY, while silver output declined 15.4% YoY last month.

Agriculture – favourable weather conditions in Australia

Australia's Bureau of Agricultural and Resource Economics and Sciences (ABARES) estimates that winter wheat production in Australia will reach 32.2mt in 2022/23, slightly below the all-time high of 36.3mt reported last year. The latest forecast is 6.3% higher than the previous estimate of 30.3mt, as overall crop production has benefited from favourable weather conditions. Australia is expected to export 25.8mt of wheat to global markets in 2022/23, marginally lower than last season's record 26mt.

The USDA's weekly export inspection data shows that demand for US corn and wheat remained soft over the last week. US weekly inspection of corn for export fell to 518kt over the last week, compared to 689kt in the previous week. Similarly, wheat shipment inspections fell to 478kt over the last week, compared to 631kt from a week ago. However, soybean inspections rose last week from 440kt to 496kt; while also coming in well above the 94kt seen for the same week last year.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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