The Commodities Feed: Oil whipsawed

A stronger USD weighed on most of the commodities complex yesterday. The oil market also saw significant volatility after reports that OPEC+ is looking to increase supply at its next meeting. These reports were later denied by Saudi Arabia

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Energy - OPEC+ noise starts already

Oil prices were whipsawed yesterday with ICE Brent trading in almost a US$6/bbl range. The catalyst for the increased volatility was a report from the WSJ suggesting that OPEC+ is looking to possibly increase output by as much as 500Mbbls/d when the group next meets on 4 December. However, this report was quickly denied by the Saudis, and this led the market to recoup most of its losses. It would be an odd move from OPEC+ to increase supply when there is still so much demand uncertainty, and while there is still so little clarity on what the full impact of the EU ban on Russian oil will be. We believe it is unlikely that the group makes any further changes to its deal after reducing production targets by 2MMbbls/d at their meeting in October. If we are to see changes, this would likely only be next year when there is more clarity on Russian supply.

Russia's Deputy Prime Minister, Alexander Novak, has once again made it clear that Russia will not supply crude oil or refined products to countries which follow the G-7 price cap. Instead, oil will either be redirected to those nations who choose to ignore the price cap or Russian output will be reduced. It is expected that the market will receive more clarity on the G-7 price cap this week, including the level at which the group plans to set the cap.

Metals – China Covid concerns push metals lower

LME metal prices fell on Monday as concern over China's potential reopening amid a rise in Covid-19 cases weighed on sentiment. Beijing reported three Covid deaths over the weekend as cases rose, fuelling concerns that tougher restrictions in the capital might return once again. A stronger dollar added to the downbeat mood. LME copper prices dropped by around 2.4%, while LME aluminium prices were also down by around 2.1%.

A monthly survey from Mysteel showed that Chinese stainless steel production could drop by around 5% MoM in November as higher nickel prices weigh on the profitability of mills. While LME nickel prices have increased by around 15% in the current month, China's stainless steel prices have been largely flat due to soft demand for end-products. Rising Covid-19 cases and threats of lockdowns are likely to further weigh on operating rates over the coming weeks and keep nickel demand under pressure.

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