The Commodities Feed: OPEC+ cuts

Oil prices are little changed this morning despite pledged cuts from OPEC+

Source: Shutterstock

Energy: Saudi expects OPEC+ to extend output cuts

The oil market ended yesterday on a softer note with ICE Brent settling at around US$78/bbl as scepticism around OPEC+ cuts continued to weigh on sentiment. In response, the Saudi Energy Minister stated that the OPEC+ cuts would be delivered in full as announced over the first quarter of 2024. Moreover, the group could extend the cuts further into 2024 if required. The news has had a muted response so far, with the ICE Brent prompt month contract still trading around US$78.3/bbl at the time of writing. Last week, OPEC+ agreed on voluntary oil production cuts of about 2.2MMbbls/b for early next year, with Saudi dominating the output reduction share.

Saudi Arabia could release its official selling price for January deliveries this week. The market estimates Saudi to cut the selling price for Asian buyers due to softer oil prices and higher inventories; however, a large price cut could give the impression of abundant supplies. Last month, Saudi Arabia lowered prices for European consumers by around US$2.3/bbl but left the premium relatively unchanged for Asian buyers.

Europe has been witnessing a relatively cold start to the winter; however natural gas prices remain steady at around EUR40/MWh given ample inventory and stronger LNG flows. European gas inventory was reported at 94% full currently compared to the five-year average of around 84% at this time of the season reflecting comfortable supply. Moreover, LNG supply from the US remains healthy as demand in Asia remains soft and congestion at the Panama Canal also makes it convenient to transport gas to Europe.

Metals: Nornickel increases nickel surplus estimates

Norilsk Nickel expects the global supply surplus of nickel to expand to more than 250kt in 2023, higher than the previous expectations of a surplus of 200kt. The upward revision is primarily due to the lower-than-expected usage of nickel in the battery sector, a rising share of non-nickel LFP batteries and a partial shift from BEV to PHEV sales in China. Meanwhile, the fast-paced expansion of the new nickel capacity in Indonesia is also helping the supply side to move higher. For 2024, the company expects the nickel market to witness a surplus of 190kt, slightly higher than its previous surplus estimates of 180kt. Looking at the supply side, mine supply is expected to increase 2% year-on-year in 2023 and 3% YoY in 2024 following the commencement of projects like Quebrada Blanca Phase 2 in Chile and Oyu Tolgoi in Mongolia. Meanwhile, refined production is expected to rise 4% YoY and 2% YoY in 2023 and 2024, respectively, primarily due to the new refining capacity launch in China.

Gold prices retreated to around US$2,029/Oz yesterday after hitting all-time highs above US$2,100/Oz. Bloomberg data shows that ETFs also continued selling yesterday with around 63.4kOz of gold sold yesterday. ETFs have sold nearly 0.7mOz of gold over the past week as higher prices offered selling opportunities. The underlying fundamentals remain healthy for gold; however, these warrant a relatively more gradual rise in prices rather than a sharp uptick induced by panic buying.

Agriculture: Canada increases wheat production estimates

Statistics Canada increased its wheat production estimates to 32mt (still down 7% YoY) for the 2023/24 season compared to previous estimates of 29.8mt. Meanwhile, soybean production estimates also increased from 6.7mt to 7mt (up 7% YoY) for the above-mentioned period. The rise in estimates was largely driven by an increase in harvest area by 6.8% to 5.6m acres.

For coffee, the latest estimations from the Vietnam Coffee Cocoa Association show that the nation's coffee production is set to reach 1.6mt-1.7mt in the current season, down from 1.78mt reported in the previous year. The association further added that the total coffee acreage is expected to drop to about 600,000 hectares from previous estimates of 700,000, as local farmers shift to planting more profitable crops such as durians and avocados instead of coffee. Meanwhile, domestic coffee consumption is expected to rise to 350-400kt/yr from the current 260kt once the instant coffee plants reach full capacity. Vietnam's coffee exports could fall around 15% YoY for the 2023/34 season.

As per the recent report from Australia's Bureau of Agriculture, the government has raised the nation's wheat production estimates marginally to 25.5mt, up from 25.4mt estimated in September. The revision in the estimates is mainly due to the lower rainfall in December allowing farmers to collect grain with minimal damage. However, production estimates are still down 37% YoY.

Author

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Disclaimer