The Commodities Feed: OPEC+ set to increase supply

Oil prices are weaker as OPEC+ confirms it will start reversing supply cuts, while tariff uncertainty is also hitting sentiment

Energy- OPEC+ set to increase supply

Oil prices are under pressure with ICE Brent settling more than 1.6% lower yesterday. This follows news that OPEC+ is sticking with plans to gradually increase supply from April by 138k b/d in the month. The market had been pricing in the possibility that the group might delay an increase in supply. This development hasn't changed our view on the market, as we already thought supply would return. The increase is likely to make President Trump happy, given the pressure he's been putting on OPEC to boost supply.

According to a Bloomberg survey, OPEC oil production increased by 320k b/d month on month in February to 27.35m b/d. The bulk of the increase was driven by Iraq, with output growing by 150k b/d to 4.16m b/d, leaving production above its target level of 4m b/d. Fairly sizable increases were also seen in Libya, Venezuela and the UAE.

Along with supply dynamics, there are growing concerns about demand levels amid uncertainty about tariffs. The Atlanta Fed's GDPNow model suggests first quarter GDP will contract by 2.8%.

Just 4 weeks ago, the model was forecasting growth of 3.9%. Trump increased tariffs on China to 20% from 10%, while also allowing 25% levies to go ahead for Canada and Mexico starting today. For Canadian energy, the tariff is set lower at 10%. Given the lack of alternative export capacity for Canadian oil, discounts for Canadian crude will increase thanks to these tariffs.

European natural gas prices strengthened yesterday, with TTF settling just over 2% higher on the day. The increase reflects diminishing hopes for a Russia-Ukraine peace deal. Meanwhile, storage levels in the EU stand just under 38% full, compared to 62% last year and a 5-year average of 49%. Given the larger task of refilling storage this year, we expect European gas prices to remain well supported. The risk to this view would be a relaxation in storage targets or a peace deal that leads to the resumption of some Russian pipeline gas flows to Europe.

Metals – Iron ore falls below $100/t

Iron ore dipped below $100/t yesterday for the first time since mid-January. The move followed reports that Chinese steel mills are reducing production to ease pollution levels ahead of the annual National People's Congress meeting in Beijing. Steelmakers in the production hub of Tangshan halted work to ensure blue skies. There is also speculation that the government will further mandate capacity cuts. The sector is struggling with declining domestic demand and trade tensions affecting the outlook for exports.

Agriculture – Cocoa prices decline on fading supply fears

The cocoa market continues to sell off, with London cocoa pulling back aggressively. The nearly 11% drop yesterday has cocoa trading at its lowest level since November. The International Cocoa Organization, in its first forecast for the 2024/25 season, last week estimated that the global market is likely to record a supply surplus of 142kt. That follows three consecutive seasons of deficit. A production recovery and weaker demand -- due to higher prices -- are expected to push the market back into surplus this season.

In its latest quarterly crop report, Australia's Bureau of Agricultural and Resource Economics and Sciences (ABARES) estimates that the winter wheat harvest, completed in January, increased by 31% year on year to 34.1mt for the 2024/25 season. That's up 7% from the previous estimate and 28% above the 10-year average. New South Wales and Western Australia drove the increase with production rebounding by 82% and 64%, respectively. Meanwhile, a bumper wheat harvest in the nation might boost global stockpiles, which have been hovering at lower levels amid smaller harvests in the European Union and Russia.

Author

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

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

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