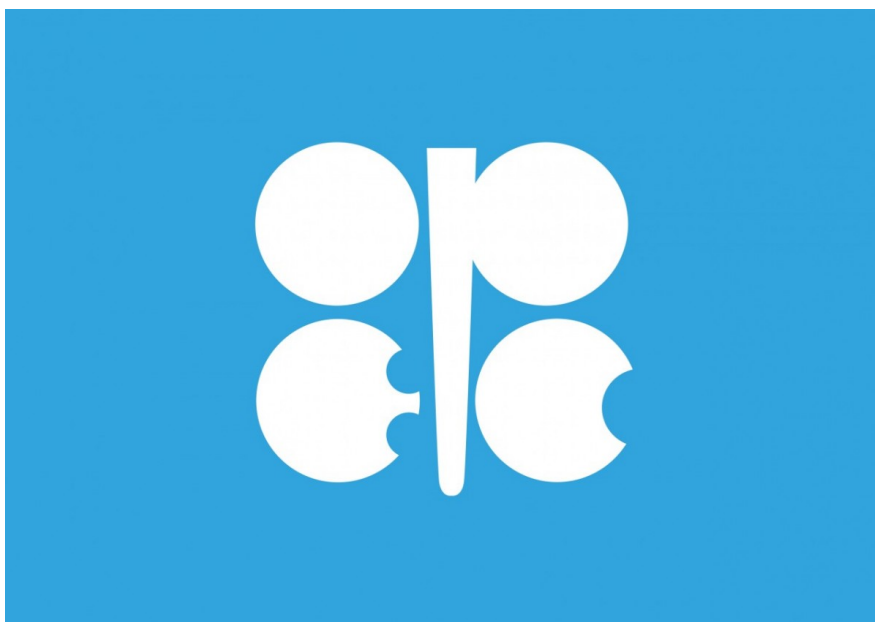


The Commodities Feed: Potential for OPEC+ supply cuts

Oil prices had a volatile day yesterday. Brent recouped almost all of its losses from earlier in the day after comments from the Saudi energy minister. Meanwhile, European natural gas prices continue to move higher



Energy - possible OPEC+ action

The Saudi energy minister has warned that the oil futures market is becoming increasingly disconnected from the physical market, which is not helped by the lack of liquidity and high volatility in the futures market. The increased volatility has also meant that price discovery has become a lot more difficult for the market. The minister suggested that the divergence between the physical and paper market could force OPEC+ to take action by cutting oil production. It might be difficult to justify supply cuts when Brent is trading above US\$90/bbl, but possibly the minister's comments were an attempt to put a floor under the market. While the oil market is tight in the medium to long term, and there is limited spare capacity, our balance sheet shows that the oil market will be well supplied for the remainder of this year and into early next year. A return of Iranian supply would improve the supply/demand picture even further.

European natural gas continues to strengthen. TTF rallied more than 13% yesterday, which saw it settle at almost EUR277/MWh, a record high settlement. Although on an intraday basis, the market traded higher back in March. The market continues to fret about supply following Gazprom's announcement that it would stop flows along Nord Stream for 3 days to carry out maintenance at a compressor station. While EU gas storage continues to increase and is 77% full at the moment (not far from the EU target of 80% by 1 November), there are real concerns about how Russian gas flows will evolve as the region moves into winter. The uncertainty means that prices will likely remain elevated and volatile.

Metals – European metal output declines

Data from the International Lead and Zinc Study Group shows that the zinc market was in a surplus of 26kt in the first half of 2022, compared to a balanced market during the same period a year earlier. Total refined production fell 2.6%YoY to 6.8mt (largely due to declines from Europe), whilst consumption declined by 3%YoY to 6.7mt in the first six months of the year. Supply is likely to come under further pressure for the remainder of the year after more European smelter cuts were recently announced.

The latest numbers from the International Aluminium Association (IAI) show that global daily primary aluminium output fell to 188.6kt in July, from 189.1kt a month earlier. Total monthly output stood at 5.85mt, up 2.1%YoY, while cumulative production remained largely flat at around 39.5mt over the first seven months of the year. Chinese output rose 3.3%MoM to 3.5mt last month, whilst Western and Central European output fell 10%YoY to 251kt in July. Global production is likely to come under further pressure in the months ahead due to the power issues in Sichuan province in China, along with further smelter cuts in Europe.

Agriculture – Early feedback from crop tour suggests lower yields

The USDA's latest weekly crop progress report shows that 95% of the US winter wheat crop was harvested as of 21 August, up from 90% a week ago, but still down from year-ago levels of 99%. As for crop conditions for corn and soybeans, 55% of the corn crop was rated good-to-excellent, down from 57% a week ago and 60% last year, whilst 57% of the soybean crop was rated good-to-excellent, down from 58% a week ago. Early feedback from the Pro Farmer Midwest Crop Tour suggests that the US corn and soybean crop in parts of South Dakota is not in great condition due to dry weather, which is expected to weigh on yields.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an

investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.