The Commodities Feed: Price caps and production cuts

Next week all attention will be on OPEC+ as the group decides on output policy amid recent price weakness and the uncertain demand outlook. Meanwhile, the German government has announced a EUR200bn package due to surging energy prices, which includes a price cap for gas

Source: Shutterstock

Energy - Germany gas price cap

There is increasing noise that OPEC+ will be looking to agree on an oil production cut at their meeting next week, given the broader pressure that we have seen on oil prices. However, since reports that Russia had proposed a 1MMbbls/d supply cut, there have been no suggestions from other members on the potential size of any cut. In August, OPEC+ production was estimated at around 3.37MMbbls/d below target production levels. So in reality, any cut in supply will likely be smaller than whatever figure the group announces.

The latest refined product inventory data for the ARA region shows that total refined product stocks fell by 139kt over the week to 5.2mt according to Insights Global. All products saw declines with the exception of gasoil. Naphtha saw the largest fall with stocks decreasing by 144kt (or 33%) to 288kt. Although the reported decline seemed to have little impact on the naphtha crack. Meanwhile, for middle distillates, there was some relief with gasoil stocks increasing by 125kt over the week to 1.81mt.

The German government yesterday announced a EUR200bn package to address surging energy prices. Part of the package will include a price cap on natural gas with further details expected to be released next month. It is planned that these measures would run through until the spring of 2024. A price cap on gas is a questionable approach, as it will do little to ensure that we see the necessary demand destruction, particularly if Russian gas flows come to a complete halt. Interestingly, Germany's network regulator yesterday also warned that natural gas consumption was above average last week - coming in 14.5% above the 2018-2021 average.

Metals – LME discussing a ban on Russian metals

LME nickel and aluminium both spiked higher yesterday after it emerged that the LME is discussing potential plans to ban Russian metals for delivery into exchange warehouses. The LME is looking to launch a discussion paper on the acceptance of Russian metals in exchange warehouses which could potentially lead to tighter restrictions on the delivery of Russian metals. This is purely a discussion for now and no decision has been made yet.

Providing further support to LME metals yesterday was the softer USD. However, sentiment across broader financial markets remains negative given concerns over the macro outlook.

Glencore is reportedly reviewing the sustainability of operations at its Portovesme lead production plant in Italy as high-power prices affect profitability. The company suspended primary zinc production at the plant last year due to high power prices, although zinc recycling and lead production continued. Glencore produced around 159kt of lead in 2021 from its three facilities in Europe including Portovesme, although exact details of lead production from the plant are not known.

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