How Petro FX could react to the OPEC meeting

In short: there's limited upside, only downside

Source: iStock

Hamza Khan, ING's Head of Commodities Strategy, notes that while initial plans were to discuss a 3-to-6 month extension, the conversation now seems to be centred on a 9-month extension (until March 2018). Oil markets have already priced this in.

Bar headline driven volatility, the meeting should be a formality for petro FX. A bigger story was the fact that the rest of the commodity universe had been catching a (potentially unrelated) bid after a tough couple of months; both AUD & NZD were the outperformers in the G10 FX space this week prior to the sharp reversal in Asia overnight. The combo of higher metals, a 'flight-to-quality' yield and a short positioning adjustment may have all been valid contributing factors.

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But for the AUD$, the China downgrade – and its possible knock-on effects for steel prices – highlights the fickle nature of chasing short-term upside in commodity FX (without a positive local story).

Overall, oil markets are gradually moving towards a more balanced level – but the path seems to be much longer than anticipated and riddled with short-term obstacles. This does not bode well for any lasting commodity FX impact. We think the focus should remain on idiosyncratic fundamentals; RUB & COP are those that remain sensitive to oil.

Possible outcome scenarios for the OPEC meeting

Length of extension	No Exemption	Nigeria, Iran, Libya Exempt	Nigeria, Libya Iran, Iraqi Kurdish region exempt	Nigeria, Libya Iran, Iraqi Kurdish region exempt, Russia leaves
0 Month	Bearish	Bearish	Bearish	Bearish
3 Months	Neutral	Bearish	Bearish	Bearish
6 months	Bullish	Neutral	Bearish	Bearish
9 months	Bullish	**Neutral** (most probable)	Neutral	Bearish

Source: ING