

The Commodities Feed: \$80/bbl in sight

Your daily roundup of commodity news and ING views



Energy

The oil market moved within striking distance of US\$80/bbl yesterday, although it failed to break through this key level. Given the strength across the energy complex, it is probably only a matter of time before Brent finally breaches US\$80/bbl. The forward curve continues to strengthen and the ICE Brent Dec'21-Dec22 timespread is trading in a backwardation in excess of US\$7/bbl, up from less than US\$4/bbl in August. A growing backwardation along the curve reinforces the view of a tightening market.

The situation we find ourselves in is not too dissimilar from 2018. That was the last time we saw ICE Brent break above US\$80/bbl. Back then there were concerns that OPEC+ was overtightening the market and so the group decided to aggressively ease cuts. OPEC output increased from around 31.8MMbbls/d in May 2018 to a little over 33MMbbls/d by November 2018. This saw Brent finish 2018 at close to US\$50/bbl, having traded above US\$86/bbl in October 2018. With hindsight, the group should have shown more restraint, or at least ease more cautiously. OPEC+ will not want to make the same mistake this time around, particularly following the hard work they have put into rebalancing the market following Covid-19. The group has been cautious up until this point. However, it is still to be seen if they will continue to take this approach if calls to increase output at a quicker pace get louder. While the scale of the deficit for the remainder of this year means that the market can absorb more than the currently planned 400Mbbbls/d increase per month, the group will want to ensure that the market continues to draw inventories. This is particularly the

case given that in 2022, the oil market is expected to be much more balanced.

Metals

Risk sentiment soured yesterday as US Treasury yields rose further and the USD remained well bid - all of which weighed on the metals complex. The net effect from the escalating power crunch hitting metal supply chains remains murky as the situation is still unfolding. But there is growing concern over the impact this could have on economic growth.

LME copper extended moderate gains yesterday amid continuous destocking across the LME and Shanghai market. Mine supply concerns would have also been somewhat supportive. Miner, MMG said that operations would be halted this week at its Las Bambas copper mine in Peru as community roadblocks disrupted logistics. Concentrate shipments and sales are also being impacted due to the blocking of the highway. However, developments for nickel were more bearish. There were reports that China's Fujian province, where a large proportion of stainless steel production capacity is located, will start power rationing. This increases the risk of wider cuts at mills, which would weigh on nickel demand.

Finally, China's National Food and Strategic Reserves Administration is set to release a fourth batch of metals from state reserves on 9 October. This will include 70kt of aluminium, 30kt of copper and 50kt of zinc, and is aligned with what the market was expecting. China has released 110kt of copper, 280kt of aluminium and 180mt of zinc state reserves up until now.

Agriculture

Sugar supply from Brazil continues to be soft due to lower cane production and diversion towards ethanol production. The latest fortnightly data from UNICA shows that sugar output in Center-South Brazil dropped 20.5% YoY to 2.55mt over the first half of September. Sugarcane crushing in the region fell by around 14.1% YoY to 38.4mt, whilst sugar content in sugar-cane declined to 155kg/t compared to 159kg/t a year ago. Sugarcane allocation for sugar production dropped from 47.34% a year ago to 44.94% over the first half of September owing to stronger ethanol prices, which have been lifted by higher energy prices. Cumulative sugar production in Center-South Brazil has fallen by 8.1% YoY to 26.8mt, while the cane crush is down 6.6% YoY to 431mt.

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