

The Commodities Feed: Brent breaks below US\$40/bbl

Your daily roundup of commodity news and ING views



Energy

Downward pressure on oil has continued, with ICE Brent closing more than 5% lower yesterday, and crucially below the US\$40/bbl level. There was no clear catalyst for the move, however, a stronger USD and weaker equities would have done little to help sentiment, not just for oil, but the broader commodities complex. Looking at fundamentals, and while stalling demand has been a concern for most in the market for a while, it is becoming more evident. Time spreads continue to edge deeper into contango, while the physical market is weaker - over the last few days we have had both Aramco from Saudi Arabia and Adnoc from the UAE cutting official selling prices for their crude oil. Both of their flagship grades are now at discounts to their benchmark, which is not a

great signal for demand.

On the supply side, with OPEC+ easing cuts we are seeing oil supply growing. Looking just at OPEC, output from the group has grown by around 1.5MMbbls/d since June, and obviously, if you factor in the “+” members, such as Russia, supply growth would be even stronger, with Russian oil supply having grown by around 500Mbbls/d over the same period. If this downward pressure on the market continues, OPEC+ will become increasingly concerned, and there is always the potential that the group look to re-implement the deeper cuts that we saw between May and July. The OPEC+ Joint Ministerial Monitoring Committee are scheduled to meet on the 17th September, so be ready for plenty of noise in the lead up to and around the meeting on what the group may or may not do.

Metals

A strong rebound in the dollar index weighed heavily on metals markets yesterday. President Trump's comments on 'decoupling' the US from China, US equities rout and Brexit developments all added to the risk-off environment. While prices crumbled across the board, trading volumes remained very thin, suggesting that many are sitting on the sidelines for the time being. Meanwhile, LME warehouses continued to see outflows of inventories for most metals, with the exception of tin. Copper saw the tom-next spread spike again to US\$14/t yesterday; meanwhile, the cash-3M spread bounced to US\$27.25/t.

Turning to the latest production data from SMM, major base metal production continued to grow during August on both a monthly and annual basis. Copper cathode production increased by 5.6% YoY to 810.5kt; primary aluminium was up by 6.1% YoY to 3.2 mln tonnes; refined zinc up by 1.98% YoY to 509kt; primary lead up by 12% to 285kt; and nickel cathode up by 12.9% YoY to 14.3kt. Nickel was the only metal which saw a monthly decline of 2.3% from July, as ore tightness weighed on production growth.

Finally, the World Platinum Investment Council (WPIC) in its latest update now expects the global platinum market to encounter a supply deficit of 336koz in 2020 due to weak supply and strong investment demand, compared to its previous estimate for a 247koz supply surplus, and a deficit of 125koz in 2019. The group now expects global demand to fall by 11% YoY to 7.4moz, whilst global supply is expected to contract by 14% to 7.1moz on an annual basis. Rising investment demand is expected to be the key driver, with bar and coin investment expected to more than double this year to 600koz. Recovering demand from China's auto industry is also expected to result in a smaller decline in overall demand than previously expected.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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