

# The Commodities Feed: Canada extends oil cuts

Your daily roundup of commodity news and ING views



Source: Shutterstock

## West Canada Select/WTI differential (US\$/bbl)



Source: Bloomberg, ING Research

## Energy

**Canadian cuts extended:** Alberta in Canada has decided to extend its current production cuts

through until the end of 2020. These cuts were originally meant to come to an end on 31 December 2019. The Alberta government expects production to exceed takeaway capacity by around 150Mbbbls/d, due to delays in pipelines. With the extension, the base limit increases from 10Mbbbls/d to 20Mbbbls/d, meaning that producers' first 20Mbbbls/d of production will be exempt from cuts- helping out smaller producers. This change will come into effect on 1 October 2019, which is also when the overall production limit is lifted to 3.79MMbbbls/d. This compares to 3.76MMbbbls/d for September, and 3.56MMbbbls/d back in January 2019.

Mandatory production cuts have had their desired effect, with the West Canada Select discount to WTI Cushing narrowing from US\$50/bbl in October 2018 to around US\$13/bbl currently. Continued cuts should continue to offer support to this differential.

**US crude oil inventories:** Oil prices are stronger this morning, with ICE Brent trading further above US\$60/bbl. This follows the API reporting yesterday that US crude oil inventories declined by 3.45MMbbbls, compared to market expectations for a draw of 1.5MMbbbls. The API also reported that inventories in Cushing fell by 2.8MMbbbls over the week, which again should be supportive for the WTI/Brent spread. The EIA is scheduled to release its more widely followed weekly report later today.

## Metals

**Aluminium output:** Data from the IAI shows that global aluminium output dropped 0.8% month-on-month (down 1.3% year-on-year) to 174.4kt/day (total of 5.4mt) in July, while year-to-date output is down 0.4% YoY to total 37.1mt over the first seven months of 2019. Lower prices and subdued demand have weighed on aluminium output. The supply outlook for the remainder of the year is even weaker due to multiple supply disruptions in China. There have been market rumours that a smelter in China could announce a capacity suspension of around 600kt pa, which follows the 500kt pa capacity cuts by Xinfu Group due to an incident. Curtailed operating rates in Shandong province over the past few weeks due to floods have only added to disruptions.

**Copper market balance:** Data from ICSG shows that the global copper market was in a deficit of 62kt in May, which saw the YTD deficit increasing to 190kt. Global refined copper demand was soft, falling 0.4% YoY to 9.96mt over the first five months of 2019; however, supply was even weaker and dropped 1% YoY to 9.77mt. This was mainly due to supply disruption in South America. LME data suggests that market balance has improved over the past few months with total inventory increasing by 89kt since the start of 3Q19 and more than 200kt since mid-March. Similarly, SHFE copper stocks have also been increasing gradually since bottoming at 135kt in June 2019 and currently stand at 163kt. The LME copper cash/3M spread widened to a two-month low of a contango of US\$28.25/t, reflecting sufficient supplies in the spot market.

## Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	60.03	0.49	11.58			Spot Gold (US\$/oz)	1,507.2	0.75	17.52		
NYMEX WTI (US\$/bbl)	56.34	0.23	24.07			Spot Silver (US\$/oz)	17.2	1.69	10.76		
ICE Gasoil (US\$/t)	564	0.45	10.33			LME Copper (US\$/t)	5,711	-1.09	-4.26		
NYMEX HO (Usc/g)	185	1.16	10.32			LME Aluminium (US\$/t)	1,782	-0.67	-3.47		
Eurobob (US\$/t)	589	-0.34	22.85			LME Zinc (US\$/t)	2,226	-1.59	-9.77		
NYMEX RBOB (Usc/g)	168	1.00	27.00			LME Nickel (US\$/t)	15,860	-0.38	48.36		
NYMEX NG (US\$/mmbtu)	2.22	0.36	-24.56								
TTF Natural Gas (EUR/MWh)	11.22	4.00	-48.97			CBOT Corn (Usc/bu)	360	-1.51	-4.13		
						CBOT Wheat (Usc/bu)	460	-1.18	-8.59		
API2 Coal (US\$/t)	57	-1.04	-33.78			CBOT Soybeans (Usc/bu)	856	0.20	-3.03		
Newcastle Coal (US\$/t)	66	-0.15	-35.26			ICE No.11 Sugar (Usc/lb)	11.44	-0.26	-4.90		
SGX TSI Coking Coal (US\$/t)	151	-0.90	-28.67			ICE Arabica (Usc/lb)	91	0.33	-10.21		
SGX Iron Ore 62% (US\$/t)	86.43	-0.07	24.41			ICE London Cocoa (GBP/t)	1,625	-0.67	-7.98		

Source: Bloomberg, ING Research

## Author

### Warren Patterson

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto: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>.