The Commodities Feed: Compliance problems for OPEC+

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Energy

OPEC+ failed to hold their meeting yesterday, however latest reports suggest that the alliance could meet this weekend, where they may sign off on a tentative deal, which would see the group extending current cuts by another month. This would leave production cuts at 9.7MMbbls/d over July, rather than reduced to 7.7MMbbls/d. The lack of compliance from a handful of producers appears to have been what got in the way of the group meeting yesterday, with Saudi Arabia and Russia not willing to extend deeper cuts, if others continue to produce above their agreed quotas. However, for what it's worth, the key culprit, Iraq has said that it will improve its compliance in the coming months. Any deal will likely be subject to better compliance from those who have fallen short so far.

A one-month extension does not, however, drastically change our view on the medium/long term outlook for the market. We still expect ICE Brent to average US$50/bbl in the last quarter of this year. Although the extension could provide a bit more upside to prices over 3Q20 from current levels. Whether or not it does, however, will depend largely on compliance levels of OPEC+.

Metals

Latest LME data show that copper cancelled warrants jumped by 16kt (+24% from the prior day) to 83kt (highest since December), while inventories declined by 4.1kt yesterday. Regarding zinc, the latest survey from SMM shows that China's refined zinc output fell 1.3% YoY to 474kt in May, which was in line with expectations. Falling treatment charges in the nation have led some producers to reduce output, or bring forward smelter maintenance.

Moving onto ferrous metals, the latest forecasts from the World Steel Association (WSA) show that global steel demand could fall by 6.4% to 1,654mt in 2020 due to demand hits from the industrial and construction sector. However, steel demand in China is expected to rise by 1% this year, driven by infrastructure projects. In contrast, developed and developing economies (excluding China) would experience a demand drop of 17% and 11.6% respectively in 2020. Looking to 2021, WSA expects global demand to recover by 3.8% YoY to total 1,717mt.

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