

The Commodities Feed: Compliance problems for OPEC+

Your daily roundup of commodity news and ING views



Source: Shutterstock

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.

Author

Warren Patterson

Head of Commodities Strategy

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 www.ing.com.