The Commodities Feed: Deeper cuts yet market falls

Your daily roundup of commodity news and ING views

Energy

The OPEC ministerial meeting yesterday was a fairly quick affair, with the group of ministers first agreeing to recommend 1.5MMbbls/d of additional cuts over 2Q20, whilst extending the current deal through until year-end. Although, it later became clearer that the group had had a change of heart, and had decided to recommend that the additional cuts should run until year-end. OPEC would make up 1MMbbls/d of these cuts, whilst the remainder would fall on Russia and other non-OPEC members. Despite recommending cuts which came in at the top end of expectations, the market still seems disappointed, shrugging off the OPEC decision, and seeing ICE Brent settle 2.23% lower for the day. This downward pressure has continued in early morning trading today.

From an oil perspective, the weakness in the market could be a combination of two factors - firstly the market wants confirmation that Russia is in agreement before getting too excited and secondly, with continued downside to demand estimates, the market may simply be expecting more. On the first point, we think Russia will most likely be on board for the new deal, it does seem unlikely that OPEC would agree to cuts and issue a statement without consulting Russia, given the risk of a selloff if Russia was not to agree today. On the second point, will any cut be enough for the market? With so much uncertainty around how severe the demand hit will be, the market will be questioning if OPEC+ has done enough. Adding to this uncertainty is Libya, and when output in the country could return to normal.

On the demand side, OPEC has also revised lower its demand growth estimates further for this year, and now expects demand to grow by just 480Mbbls/d over 2020, compared to an estimate of 990Mbbls/d in their February market report. They have also highlighted further downside to this latest number. The range of demand estimates continues to widen as the virus becomes more widespread, with some analysts now even forecasting a contraction in 2020 demand.

The weakness in oil yesterday was also part of a broader market selloff, with worries over the economic impact from the Covid-19 outbreak only growing. US equities settled more than 3% lower, whilst the move towards safe haven assets saw US treasury yields fall, with the 10 year hitting an all-time low, dipping just below 0.90%, and unsurprisingly gold rallied above US$1,670/oz.

Metals

Nickel and zinc were the standout metals across the base complex yesterday, with both metals settling well above 1% higher on the day. Supply concerns offered support to nickel, with reports that a subsidiary of Eramet suspended nickel mine operations in New Caledonia, following a blockade which has been going on for more than a month now. Meanwhile, Bloomberg reported that Vale was set to shut the Vale New Caledonia (VNC) refinery after April, which would reduce global class 1 nickel capacity by 5%.

Moving to zinc, and the build seen in LME inventories has paused over the last few days, with total stock standing at around 75kt, the highest since last August. China inventory has more than doubled from 99kt at the beginning of the year to 280kt as of the latest available data. While some investors are excited by the 'new infrastructure' and its potential boost to zinc demand, we believe this expectation could be misplaced, until there is a clear trend of stock drawdowns or any meaningful tightening in supply.

As for aluminium, with prices sinking below US$1,700/t, and alumina prices having seen some strength, this would have cut into some high-cost smelters' margins, There has been a diverging trend between LME and China inventory levels. Year to date, LME aluminium inventories have fallen by 30% to a little over 1mt, while in China, total social inventories have grown by almost 150% to around 1.5mt. According to a SMM survey conducted with 41 aluminium semi-fabricators in China, the average rate of business return has increased by over 11% WoW to an average of 64% as of yesterday. A gradual return of fabricators should help to offset the growth in primary inventory building. Although, things may not look as optimistic further down the supply chain towards end-users.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**49.99**	-2.23	-24.26	Spot Gold (US$/oz)	**1,672.2**	2.16	10.21
NYMEX WTI (US$/bbl)	**45.9**	-1.88	-24.83	Spot Silver (US$/oz)	**17.4**	1.27	-2.34
ICE Gasoil (US$/t)	**456**	-1.35	-25.73	LME Copper (US$/t)	**5,674**	-0.18	-8.10
NYMEX HO (Usc/g)	**149**	-2.92	-26.61	LME Aluminium (US$/t)	**1,720**	-0.35	-4.97
Eurobob (US$/t)	**465**	-1.99	-19.39	LME Zinc (US$/t)	**2,011**	1.46	-11.49
NYMEX RBOB (Usc/g)	**152**	-2.17	-10.37	LME Nickel (US$/t)	**12,890**	1.66	-8.09
NYMEX NG (US$/mmbtu)	**1.77**	-3.01	-19.05				
TTF Natural Gas (EUR/MWh)	**8.85**	-0.71	-26.57	CBOT Corn (Usc/bu)	**385**	-0.65	-0.84
				CBOT Wheat (Usc/bu)	**524**	0.53	-6.17
API2 Coal (US$/t)	**49**	1.25	-10.82	CBOT Soybeans (Usc/bu)	**889**	-1.08	-5.73
Newcastle Coal (US$/t)	**67**	0.98	-3.40	ICE No.11 Sugar (Usc/lb)	**13.42**	-0.37	0.00
SGX TSI Coking Coal (US$/t)	**156**	-0.20	9.93	ICE Arabica (USc/lb)	**110**	-6.23	-15.30
SGX Iron Ore 62% (US$/t)	**89.00**	0.87	-2.54	ICE London Cocoa (GBP/t)	**1,854**	-2.01	1.92

Source: Bloomberg, ING Research

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

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