The Commodities Feed: Deeper OPEC+ cuts?

Your daily roundup of commodity news and ING views

Source: iStock

Energy

It is finally OPEC+ week, and OPEC members will be meeting this Thursday in Vienna, followed by the OPEC+ meeting on Friday (this includes non-OPEC members such as Russia). The three potential scenarios we see are, firstly, OPEC+ decide to take no further action for the time being, secondly, they extend the deal, but keep the output quotas unchanged, or finally, they make deeper cuts, as well as extend the deal. We believe that only the final scenario would be constructive for oil prices, as it is the only scenario which would deal with the surplus over 1Q20.

Following the pressure we saw on the market on Friday, it has been a more constructive start to the week, with ICE Brent rallying more than 1% in early morning trading. There have been a couple of developments over the weekend, which have helped this move. Firstly, there were comments from the Iraqi oil minister suggesting that OPEC+ were considering to cut output by a further 400Mbbls/d, which would take total cuts to 1.6MMbbls/d. This differs from expectations last week, where there was a growing consensus that we would only see an extension to the deal, rather than deeper cuts as well. Cuts of this magnitude, along with full compliance, would do a good job in reducing the expected surplus over 1Q20, however, would still fall short of erasing it completely.

The other development, which has provided support to oil prices this morning is on the macro front. Official PMI numbers out of China surprised to the upside, with November's manufacturing PMI coming in at 50.2, which is the first expansion seen since April. The improvement was largely driven by domestic orders, and is a result of infrastructure investment moving from the investment stage to the production stage. This is a trend that our China Economist expects to continue moving into next year.

Metals

Progress in trade talks has still remained key to price direction over the last week, and this will likely continue to be the case moving forward. Meanwhile constructive Chinese manufacturing PMI data released over the weekend should provide a strong footing to the base metals complex for the week ahead.

Turning to copper, and recently there has been a lack of a strong catalyst from both a fundamental and macro perspective, with prices remaining fairly rangebound. Last week exchange stocks declined for both the LME (-10.3kt WoW) and ShFE (-15kt WoW), and this should provide a good foundation for price strength in the week ahead should we see any constructive news on the macro or trade front.

Looking at aluminium, a key development has been the divergent stock trend between LME and ShFE. LME stocks increased by around 91kt over the last week, while ShFE stocks have decreased by 25kt. The strengthening backwardation in the LME market has been a key driver behind the increased deliveries that we have seen into LME warehouses recently.

Turning to zinc, the longer-term market outlook ahead is bearish. During November, LME prices gave back all of the gains made during October. Apart from macro developments, in the short term, it is key to watch the expected stock builds in China. The market has been expecting inventories to edge higher, on the back of rising production, although this has been a little bit disappointing up until now, with ShFE stocks having declined by around 4kt over last week. If this trend were to continue in the week ahead, it would likely provide some solid support to the market in the short term.

Agriculture

Soft commodities have had a fairly strong month over November, with Arabica coffee leading the way, up more than 16% over the month, with lower Brazilian output dragging the global market into deficit over the 2019/20 season.

Meanwhile, sugar also saw fairly strong gains for the month, with the front-month contract up almost 4%. The global sugar market is set to return to deficit in the 2019/20 season, and therefore we expect prices to remain fairly well supported moving forward. While we hold a mildly constructive outlook for sugar prices, we do believe upside will be capped around Brazilian ethanol parity levels, while significant Indian exports should also provide somewhat of a ceiling to prices.

Finally, cocoa has also strengthened, with London cocoa up more than 7% over November, with once again tightening market fundamentals. The International Cocoa Organization on Friday, released its latest supply and demand estimates and revised their previous global surplus of 18kt over the 2018/19 season to a deficit of 21kt. Meanwhile, for the current 2019/20, market expectations are for yet another deficit for the global market.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**62.43**	-2.25	16.04	Spot Gold (US$/oz)	**1,464.0**	0.53	14.15
NYMEX WTI (US$/bbl)	**55.17**	N/A	21.49	Spot Silver (US$/oz)	**17.0**	0.65	9.91
ICE Gasoil (US$/t)	**572**	-2.43	11.99	LME Copper (US$/t)	**5,864**	-0.48	-1.69
NYMEX HO (Usc/g)	**188**	N/A	11.79	LME Aluminium (US$/t)	**1,770**	1.03	-4.12
Eurobob (US$/t)	**585**	N/A	21.88	LME Zinc (US$/t)	**2,274**	-0.20	-7.84
NYMEX RBOB (Usc/g)	**160**	N/A	20.65	LME Nickel (US$/t)	**13,670**	-2.43	27.88
NYMEX NG (US$/mmbtu)	**2.28**	N/A	-22.41				
TTF Natural Gas (EUR/MWh)	**16.33**	4.35	-25.71	CBOT Corn (Usc/bu)	**371**	N/A	-1.00
				CBOT Wheat (Usc/bu)	**548**	N/A	8.79
API2 Coal (US$/t)	**60**	0.34	-29.57	CBOT Soybeans (Usc/bu)	**877**	N/A	-0.65
Newcastle Coal (US$/t)	**69**	0.65	-31.61	ICE No.11 Sugar (Usc/lb)	**12.94**	N/A	7.56
SGX TSI Coking Coal (US$/t)	**142**	1.80	-33.25	ICE Arabica (USc/lb)	**119**	N/A	16.40
SGX Iron Ore 62% (US$/t)	**86.20**	-0.48	24.08	ICE London Cocoa (GBP/t)	**1,999**	-0.74	13.19

Source: Bloomberg, ING Research

Author

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

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