The Commodities Feed: Deeper OPEC+ cuts needed

Your daily roundup of commodity news and ING views

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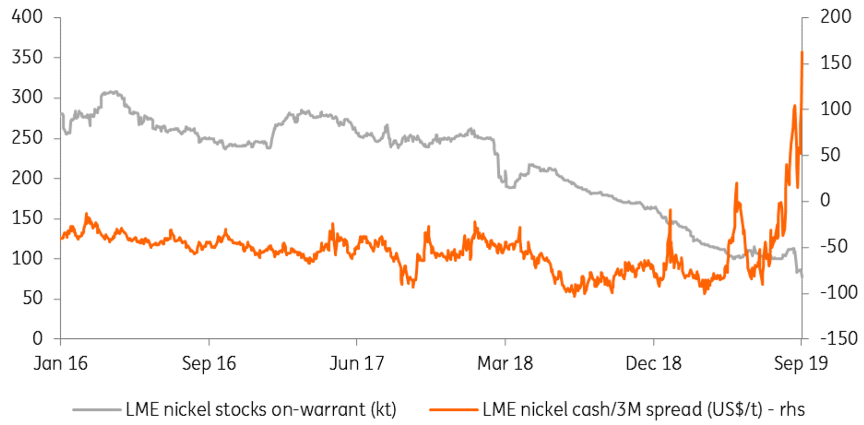
LME nickel stocks vs cash/3M spread



Source: Bloomberg, ING Research

Energy

Oil gloom: The downward pressure on oil continues, with ICE Brent edging ever closer towards US$60/bbl. Key factors driving the market lower appear to be the removal of John Bolton as National Security Advisor to President Trump. This change raises the question on whether Trump will become more lenient with sanctions, given that Bolton was seen as particularly hawkish on Iran as well as Venezuela. That said, Treasury Secretary Steven Mnuchin has said the US will continue with “maximum pressure” against Iran.

The IEA yesterday released its monthly oil market report, which also did not help sentiment. While the agency left its demand growth forecasts unchanged at 1.1MMbbls/d and 1.3MMbbls/d for 2019 and 2020, respectively, it did highlight the looming surplus the market faces in 2020, particularly over the first half of the year- which is driven by continued non-OPEC supply growth and seasonally low demand over 1Q.

We continue to hold the view that OPEC+ will need to make deeper cuts at least over the first quarter, as well as extending the deal through until mid-2020. Failing to do so would likely mean only weaker prices from current levels. A decision on deeper cuts is unlikely to be made until the OPEC+ December meeting, unless further weakness in the market forces them to act quicker. For now, the key will be getting all OPEC+ members to comply with the deal- specifically Iraq and Nigeria, who have, in fact, only increased output over the course of this year.

Metals

LME nickel stocks & spread strength: LME nickel has seen increased orders for inventory withdrawals in recent weeks, with uncertainty over supply increasing after Indonesia brought forward the nickel ore export ban by two years. LME nickel cancelled warrants increased from around 37.7kt in late August to 78.8kt currently, the highest level in more than a year. Subsequently, on-warrant LME nickel stocks dropped to a decade low of 77.6kt yesterday, reflecting tighter availability. The squeeze on physical stocks has pushed the LME nickel cash/3M spread to a high of US$163/t yesterday, while LME nickel 3M prices recovered back above US$18,000/t.

Agriculture

WASDE report: The USDA released its latest WASDE report yesterday, and it continues to be relatively optimistic on US corn yields for 19/20, despite the crop not being in such great condition to date. The USDA revised lower its corn yield estimates from 169.5bu/acre to 168.2bu/acre for 2019/20, although this is still significantly higher than market expectations of around 166.5bu/acre. As a result, US corn output estimates are revised down to 13,799m bushels compared to an earlier estimate of 13,901m bushels. For soybeans, yields were revised down from 48.5bu/acre to 47.9bu/acre, which resulted in production estimates being revised down from 3,680m bushels to 3,633m bushels – the market was expecting production to be revised down towards 3,580m bushels.

Globally, the USDA lowered its corn ending stock estimates from 307.7mt to 306.3mt, however this is still higher than the 302mt that the market was expecting. Soybean ending stock estimates for 2019/20 were also revised down from 101.7mt to 99.2mt mainly due to revisions lower in beginning stocks for the marketing year.

Sugar expiry: The no.5 Oct-19 whites contract expires today, and there has been plenty of action in the lead up to the expiry. The Oct/Dec spread has strengthened significantly in recent days, flipping from a contango of around $10/t at the start of September to a backwardation of $9/t as of yesterday. This suggests that there is a strong receiver for sugar off the tape. Open interest in the Oct-19 contract stood at over 357kt as of Wednesday, and so it could shape up to be a fairly large delivery. The strength in the front end of the whites market has also seen the Oct-19 whites premium rally from below $60/t at the start of September to almost $80/t currently, which would be welcomed by refiners. While there are concerns over the EU crop for the upcoming season once again, significant Indian stocks will remain a threat for the world market.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**60.38**	-0.71	12.23
NYMEX WTI (US$/bbl)	**55.09**	-1.18	21.32
ICE Gasoil (US$/t)	**590**	0.00	15.42
NYMEX HO (Usc/g)	**189**	-0.95	12.15
Eurobob (US$/t)	**568**	-0.09	18.41
NYMEX RBOB (Usc/g)	**155**	-1.08	17.32
NYMEX NG (US$/mmbtu)	**2.57**	0.86	-12.45
TTF Natural Gas (EUR/MWh)	**14.46**	0.75	-34.21
API2 Coal (US$/t)	**64**	0.55	-26.17
Newcastle Coal (US$/t)	**68**	0.81	-32.74
SGX TSI Coking Coal (US$/t)	**149**	1.81	-29.85
SGX Iron Ore 62% (US$/t)	**94.72**	4.18	36.35

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,499.3**	0.14	16.90
Spot Silver (US$/oz)	**18.1**	-0.11	16.82
LME Copper (US$/t)	**5,833**	1.05	-2.21
LME Aluminium (US$/t)	**1,803**	-1.21	-2.33
LME Zinc (US$/t)	**2,347**	-0.68	-4.86
LME Nickel (US$/t)	**17,990**	0.78	68.29
CBOT Corn (Usc/bu)	**355**	1.79	-5.47
CBOT Wheat (Usc/bu)	**486**	1.73	-3.48
CBOT Soybeans (Usc/bu)	**883**	3.40	0.06
ICE No.11 Sugar (Usc/lb)	**10.76**	-0.46	-10.56
ICE Arabica (USc/lb)	**100**	0.20	-1.47
ICE London Cocoa (GBP/t)	**1,634**	1.30	-7.47

Source: Bloomberg, ING Research

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