The Commodities Feed: Growing pressure on OPEC+

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Energy

Having settled lower last week for the first time since early September, ICE Brent continues to trade lower in early morning trading in Asia. Part of the more recent weakness probably reflects the growing pressure on OPEC+ to increase output more aggressively. The US administration has called on OPEC+ once again to increase output and it is yet to be seen what else the US would be willing to do in order to bring prices down. We would expect noise from key consumers to increase over the remainder of the week, given that OPEC+ will be holding their regular monthly meeting on 4 November. For now, it looks as though the group will try resist being more aggressive in its easing plan and stick to increasing output by 400Mbbls/d per month. Other than the potential for the market returning to surplus next year, the other factor holding back the group is the uncertainty over if and when Iranian supply could return to the market. Iran nuclear talks are set to resume this month and the group would not want to increase output if there is the potential for higher Iranian flows.

Weakness in other energy markets has also not helped oil more recently. Coal prices have come under pressure, with the Chinese government taking action to increase domestic supply and cap prices. In Europe, natural gas markets have also come under significant pressure (TTF fell more than 26% last week). This follows reports that the Russian president has ordered Gazprom to fill up its storage in Europe from 8 November. The weakness in gas prices means that potentially the market does not see as much gas to oil switching as initially expected. However, the winter is still ahead of us and further volatility may still lie ahead as we see a seasonal pick-up in natural gas demand.

Over the weekend the Chinese government announced releases of diesel and gasoline from state reserves in order to help ease a shortage in the domestic market. There is little detail on the volumes and timing of the releases. China has faced diesel shortages recently, with some fuel stations rationing diesel supply. Refiners are trying to respond to the tightness by increasing diesel yields. Chinese refiner Sinopec has said that it will operate its refineries at full utilization over November, which should help to boost diesel supply by 29% YoY.

Metals

Easing energy prices saw aluminium lead industrial metals lower during a volatile week. In Europe, gas prices fell significantly from their recent peak, while strong policy intervention from Chinese policymakers sent thermal coal prices into a freefall. There are signs of an easing in the power crunch, witth an apparent withdrawal of speculative bets in the metals markets.

A diverging trend between metal inventories in London and Shanghai has started. Copper and aluminium continue to move out of LME sheds, while SHFE stocks are growing. The rise in the latter could add to concerns over demand from the world's largest consumer amid a triple-shock of a property slowdown, Covid-19 outbreaks and the power crisis. The rise in Chinese aluminium and copper stocks should not be too surprising, given the seasonal trend. Although, the pace of aluminium stock builds has been quicker than expected, with it reaching close to its 5-year average. Over the weekend, China released its official manufacturing purchasing managers index, which showed a further contraction in October (a reading of 49.2).

The US and the European Commission reached a deal over the weekend, which will allow increased imports of EU steel and aluminium. However, US officials didn't specify the volume of duty-free steel to be allowed. For European aluminium, some 18kt of primary aluminium and 366kt of semi-finished product would be allowed in tariff-free by the US.

The latest CFTC data shows that speculators trimmed their net long position in COMEX copper by 6,434 lots over the last reporting week ending 26 October, leaving them with a net long of 47,596 lots. For precious metals, speculators boosted their net long in COMEX gold by 31,970 lots, to leave them with a net long of 101,251 lots.

Agriculture

Weekly CFTC data shows that speculative interest for the grains market recovered over the last week. Managed money net longs in CBOT corn increased by 25,222 lots over the last reporting week to 244,790 lots. Speculative net longs in CBOT soybean also recovered, by 5,746 lots over the last week, after falling for three consecutive weeks. However, net longs remain near a 1-year low of around 23,911 lots. For wheat, speculators bought a net 9,119 lots over the last week, which reduced their net short position to 8,619 lots as of 26 October. Profit taking in No 11 sugar continued, even as data from CS Brazil remains constructive for the sweetener market. Money managers reduced their net long position by 15,043 lots over the last week, the fourth consecutive weekly decline, with total net longs approaching a 1-year low.

In its monthly Cereals Market Situation report, the European Commission reduced soft wheat production estimates for the EU to 130.3mt in 2021/22, compared to its earlier estimate of 131mt due to a marginal fall in yield estimates. Domestic demand estimates were also reduced, from 97mt to 96.1mt for the year leading to some gain in inventory estimates. Moreover, beginning stocks for the year were revised higher from 7.7mt to 8.2mt and hence ending stocks were also revised higher, from 13.2mt to 13.9mt. The report was more constructive for corn, as inventory estimates at the end of 2021/22 were revised down from 16.2mt to 14.9mt. The major catalyst for the downside revisions was lower supply, with domestic production estimates revised down from 68.8mt to 67.8mt due to softer yields. Imports and export estimates were left largely unchanged at around 14.5mt and 3.7mt respectively.

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