The Commodities Feed: Libyan oil supply risk

Your daily roundup of commodity news and ING views

Source: Shutterstock

Energy

USD weakness continues to offer support to the commodities complex, with the USD index trading down to its lowest levels since early March. This has helped to push ICE Brent back above US$67/bbl, despite concerns over oil demand in certain regions. In India, we continue to see record daily Covid-19 cases, which has also prompted Delhi to go into lockdown for 6 days and follows the earlier implementation of restrictions in Maharashtra and Tamil Nadu. However, with the government now set to roll out Covid-19 vaccinations to all adults from 1 May, the hope will be to slow the growing number of cases.

Yesterday, Libya's National Oil Corporation declared force majeure on crude oil exports from the eastern port of Hariga, with a subsidiary, Agoco, forced to reduce its output due to lack of funding. The disruption from Agoco could see the country's output fall by 280Mbbls/d, which would take it below 1MMbbls/d for the first time since October last year. Libyan oil output had made a strong recovery towards the end of last year, having been offline for much of 2020 due to an oil blockade.

Finally, OPEC+ were scheduled to meet on 28th April for a ministerial meeting along with the Joint

Ministerial Monitoring Committee (JMMC) meeting. However, there are reports that the group are looking at possibly skipping the ministerial meeting, and instead just having the JMMC meeting. If this were to happen, it would suggest that we see no changes from OPEC+ in terms of output policy in the months ahead, and instead, the group will likely continue with their production easing as planned between May and July. The relatively stable prices that we have seen since the last OPEC+ meeting means that the group probably sees little need to change course.

Metals

Copper led base metals higher yesterday, with LME 3M copper prices settling 1.8% higher on the day at US$9,376/t and approaching the highs made in February. A weaker USD, improving risk appetite and stronger fundamentals over the medium-to-longer term have been constructive for the copper market. Meanwhile, the surge in LME inventories has stalled, with stocks falling for the last three consecutive days, providing some relief to the market. Turning to precious metals, spot gold traded to a seven-week high, touching US$1,790/oz, amid lower real yields and a softer USD. However, investors continue to trim their exposure to ETFs, with total gold ETF holdings falling by 7% this year to 99.1moz, the lowest level since May 2020.

The latest data from the International Lead and Zinc Study Group (ILZSG) shows that the global zinc market was in a surplus of around 83kt over the first two months of 2021, pointing to a well-supplied market for now. LME zinc inventories have increased by around 93kt since the start of the year, with total LME stocks making a three-year high of 298kt earlier this month. However, LME zinc continues to consolidate at higher levels of around US$2,850/t on broader optimism around the economic recovery in China and lingering risks to mine supply. Discussions earlier this month over annual benchmark treatment charges for zinc saw TCs falling to US$159/t for 2021, compared to around US$300/t for 2020, reflecting expectations of tighter mine supply, which would also restrict the growth of refined metal supply. For lead, ILZSG reported a balanced market over the first two months of 2021 with a marginal surplus of 3kt.

Author

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