The Commodities Feed: More OPEC+ cuts coming

Your daily roundup of commodity news and ING views

Source: Shutterstock

Energy

The strength seen in the oil market early yesterday was short-lived, with ICE Brent settling lower on the day. This is despite the OPEC+ Joint Technical Committee (JTC) making the recommendation to the larger OPEC+ group to deepen cuts by 600Mbbls/d to 2.7MMbbls/d until the end of June, while extending current cuts of 2.1MMbbls/d (including the 400Mbbls/d extra that the Saudis are cutting) until the end of the year. We believe that cuts of this magnitude would be more than enough for the market, assuming the demand impact from the virus is in line with OPEC's internal estimates. In fact, cuts extended until the end of the year could actually tighten the market too much over the latter part of the year. If cuts are agreed it is still likely that OPEC+ will review the deal at their mid-year meeting. However there is still plenty of uncertainty around the global balance, with it unknown how demand will evolve in coming months as a result of the coronavirus.

The recommendation from the JTC is just a recommendation. Russia still needs to be convinced but reportedly will make a decision in the coming days. Furthermore, any deal would need to be voted on by OPEC+ ministers, and up until now a new date for the extraordinary meeting has not been agreed. So as things stand, OPEC+ are still set to only meet in early March.

Moving away from oil, and yesterday there were reports that China National Offshore Oil Corp had declared force majeure on some LNG cargoes as a result of the coronavirus outbreak. This has only put further pressure on the spot Asian LNG market, which had already been under pressure from continued ramping up of LNG export capacity, while demand growth has been slowing. Force majeure could see LNG suppliers looking for other homes for their product, in a market which is already well supplied. China's announcement to reduce tariffs on US$75b worth of US good from 14 February does not extend to LNG and the 25% tariffs will remain in place for now.

Metals

LME copper prices had a fairly strong day yesterday, trading to an intraday high of a little over US$5,813/t, although giving back a lot of these gains as the day progressed. News that China would reduce tariffs on US$75b worth of US goods was helpful for market sentiment. More specifically for copper, the nCov virus has led to some supply chain disruptions. Yesterday there were media reports that China Guangxi Naunguo was the first copper smelter in China to declare force majeure on copper concentrate shipments. The move was a response to current logistical issues and slower sales expected for downstream products. In addition, it is also reported that copper buyers in China have requested miners in Chile to delay/reschedule shipments due to port operation issues. Port operations remain shut.

LME zinc came under some pressure yesterday, with considerable inflows into exchange warehouses reinforcing the weaker fundamentals of the metal. LME data shows that zinc stocks rose by 3.3kt (the largest daily increase since November), taking total stocks to 53kt. The LME zinc cash/3m spread also eased to a backwardation of just US$1.75/t yesterday, compared to a backwardation of US$ 5.25/t the previous day.

Turning to aluminium, there are continued reports of alumina refineries facing logistical constraints in China. Imports are also expected to slow in the short term - according to SMM, alumina net imports into China stood at 400kt in January, leaving the market in a slight supply surplus of 13kt. However, with the on-going transport issues SMM estimates net imports to fall to 350kt and expects the market to shift into a supply deficit of 85kt in February. Alumina prices in China have already started rising and are likely to remain supported in coming weeks due to the potential supply curtailments. Currently, we see a surplus in the alumina market, but prolonged disruptions and further impacts on supply may lead to a more balanced market.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**54.93**	-0.63	-16.77
NYMEX WTI (US$/bbl)	**50.95**	0.39	-16.56
ICE Gasoil (US$/t)	**508**	0.30	-17.30
NYMEX HO (Usc/g)	**167**	1.22	-17.89
Eurobob (US$/t)	**517**	1.37	-10.41
NYMEX RBOB (Usc/g)	**150**	0.79	-11.77
NYMEX NG (US$/mmbtu)	**1.86**	0.05	-14.94
TTF Natural Gas (EUR/MWh)	**9.15**	-1.76	-24.08
API2 Coal (US$/t)	**52**	-1.81	-6.10
Newcastle Coal (US$/t)	**72**	0.84	3.84
SGX TSI Coking Coal (US$/t)	**150**	1.05	5.82
SGX Iron Ore 62% (US$/t)	**79.89**	1.72	-12.52

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,566.7**	0.68	3.26
Spot Silver (US$/oz)	**17.8**	1.20	-0.16
LME Copper (US$/t)	**5,735**	0.23	-7.11
LME Aluminium (US$/t)	**1,737**	1.16	-4.03
LME Zinc (US$/t)	**2,207**	-0.27	-2.86
LME Nickel (US$/t)	**13,060**	-0.76	-6.88
CBOT Corn (Usc/bu)	**379**	-0.39	-2.19
CBOT Wheat (Usc/bu)	**556**	-1.02	-0.45
CBOT Soybeans (Usc/bu)	**881**	0.11	-6.57
ICE No.11 Sugar (Usc/lb)	**14.74**	0.07	9.84
ICE Arabica (USc/lb)	**98**	0.41	-24.33
ICE London Cocoa (GBP/t)	**1,999**	1.47	9.90

Source: Bloomberg, ING Research

Author

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

Disclaimer