

The Commodities Feed: More pressure on OPEC+

Your daily roundup of commodity news and ING views



Energy

WTI managed to settle above \$80/bbl for the first time since 2014. Continued concerns over tightness in energy markets, and the expectation of stronger oil demand due to gas to oil switching continues to support the oil market. Stronger demand over the coming months comes at a time when the market is already set to continue drawing inventories for the remainder of the year. The more constructive demand outlook, coupled with the cautious approach taken by OPEC+ in increasing output, suggests that the market will remain well supported for the rest of this year. The one key risk though is that the longer prices trade at these elevated levels, the more pressure we see on OPEC+ to increase output more aggressively. Already there are reports that the White House continues to push OPEC+ to increase output.

Although, while the futures market is clearly strong, the physical market is not reflecting this. Iraq cut its official selling prices for all grades of crude into Asia for November. Basrah Light was cut by \$0.40/bbl to \$0.45/bbl over the benchmark, Basrah Medium was cut by \$0.50/bbl to a discount of \$0.40/bbl, while Basrah Heavy was cut by \$0.50/bbl to a discount of \$2.75/bbl to the benchmark. This follows Saudi Arabia also cutting official selling prices for November. If the market was as tight as the futures market suggests, we should not be seeing cuts in OSPs. This indicates that a large

part of the move in the futures market is speculatively driven.

Metals

LME 3m aluminium prices surged more than 3% to hit an intra-day high of US\$3,072/t (highest since July 2008), while other base metals also extended their gains yesterday. The worsening energy crisis, which is stretching from Asia to Europe is resulting in factory slowdowns and a risk of more supply cuts, supporting the metals complex. Meanwhile, the European Union imposed anti-dumping duties on flat-rolled aluminum from China on Monday, although it excluded metal used by the beverage, car and aircraft industries.

As for copper, Codelco boosted its annual premium by US\$30/t to US\$128/t for copper supplies to European customers. This was due to higher shipping costs and expectations of continued strong demand. The miner expects its copper production to increase by 3% YoY this year.

The latest survey from Mysteel shows that, base metals output in China declined in September, primarily due to the nationwide power shortage impacting smelting activities. Copper output fell 2.9% MoM to 830kt last month, due to reduced operations in Jiangsu, Anhui and Guangdong provinces. Among other metals, aluminium output fell 3.6% MoM to 3.16mt, while zinc production fell 5.1% YoY to 450kt in September.

Agriculture

Data from the Russian Federal Service for Veterinary and Phytosanitary Surveillance shows that wheat exports from Russia were down 12% YoY to total 12.8mt as of 7 October for the current marketing year (Jul21 – Jun22). Stronger domestic prices, a weaker crop for the season and rising export taxes appears to be weighing on shipments. Russian domestic wheat prices have increased by around 27% since the season started in July, whilst CBOT wheat has increased by only around 9% over the same period pointing to a tight local market. Soft shipments from Russia is likely to keep demand for US/European wheat strong.

Looking ahead, the USDA is scheduled to release its monthly WASDE report later today and expectations are that the agency could revise down its estimates of US wheat ending stocks, while increasing soybean and corn stock estimates mainly on account of favourable weather.

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