

# The Commodities Feed: North American oil cuts

Your daily roundup of commodity news and ING views



Source: iStock

## Energy

Yesterday saw OPEC release its monthly oil market report, in which they revised lower their expectations for demand. OPEC now estimates that demand over 2020 will shrink by 6.85MMbbls/d YoY, whilst over 2Q20 they expect demand to fall by 11.86MMbbls/d YoY. While significant revisions, these still fall short of IEA forecasts, with the agency expecting demand to fall by 9.3MMbbls/d YoY in 2020, and by a significant 23.1MMbbls/d in 2Q20. OPEC numbers still suggest that production cuts will fall short of balancing the market over 2Q20, with the call on OPEC production at just 19.73MMbbls/d - quite a bit lower than the 25.7MMbbls/d we expect OPEC to pump over the quarter - this number assumes that members hike output in April, before cutting output in May, which is when the deal starts.

Finally, oil-producer, ConocoPhillips, announced yesterday that it would be cutting its North American output by approximately 200Mbbls/d, as a result of the low price environment. These production cuts will be happening at an oil sands facility in Canada, along with production in the Lower 48 region of the US. This highlights that the market will see meaningful cuts from outside the OPEC+ group without the need for mandated cuts. Instead, market forces will do the job, with

the low price environment forcing producers to cut back.

## Metals

The bulk of the base metals complex closed higher yesterday, although within a tighter trading range, as markets awaited this morning's Chinese GDP data. This showed that China's economy contracted 6.8% YoY in 1Q20. The exception to yesterday's higher trend was nickel, which traded to a low of US\$11,620/t with near term demand concerns outweighing supply disruptions. Meanwhile, LME nickel inventories have rebounded sharply with YTD inflows of 77kt (compared to outflows of 29kt over the same period last year), taking total stocks to 230kt. The LME cash/3m spread is also trading in a deeper contango of US\$68.50/t, compared to US\$51/t at the beginning of the month.

As for copper, scrap supply tightness in China is benefiting the cathode market. The spread between bare bright wire and cathode has widened to levels where cathode is now cheaper. Malaysia, the top supplier of copper scrap to China, announced an extension to its lockdown until 28 April. We estimate that the country exported approximately 30kt contained copper in scrap to China during the first two months of this year. A prolonged lockdown in Malaysia would further disrupt the supply chain. Malaysia is not the ultimate source of the scrap, instead, its primary role in the supply chain is to process scrap from elsewhere, so that it meets quality requirements for China imports. Lockdowns elsewhere would be more concerning in terms of scrap generation and collection, of which the impact may take some time to become more evident. With copper's supply-side disruptions and recent inventory drawdowns in China, the spot market premium has surged to a multi-year high of CNY180/tonne. However, the key question is to what extent this is driven by actual demand.

## Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	27.82	0.47	-57.85			Spot Gold (US\$/oz)	1,717.7	0.04	13.21		
NYMEX WTI (US\$/bbl)	19.87	0.00	-67.46			Spot Silver (US\$/oz)	15.5	0.21	-13.20		
ICE Gasoil (US\$/t)	271	3.93	-55.86			LME Copper (US\$/t)	5,140	0.56	-16.75		
NYMEX HO (Usc/g)	95	3.56	-53.35			LME Aluminium (US\$/t)	1,513	0.33	-16.44		
Eurobob (US\$/t)	181	-2.67	-68.58			LME Zinc (US\$/t)	1,938	0.36	-14.70		
NYMEX RBOB (Usc/g)	71	-2.12	-58.47			LME Nickel (US\$/t)	11,764	-0.08	-16.12		
NYMEX NG (US\$/mmbtu)	1.69	5.51	-22.98								
TTF Natural Gas (EUR/MWh)	6.91	3.88	-42.69			CBOT Corn (Usc/bu)	320	0.16	-17.54		
						CBOT Wheat (Usc/bu)	530	-1.94	-5.19		
API2 Coal (US\$/t)	48	1.38	-16.45			CBOT Soybeans (Usc/bu)	837	-0.62	-11.27		
Newcastle Coal (US\$/t)	56	-1.14	-18.39			ICE No.11 Sugar (Usc/lb)	10.16	0.00	-24.29		
SGX TSI Coking Coal (US\$/t)	131	0.00	-7.74			ICE Arabica (Usc/lb)	119	-1.33	-8.56		
SGX Iron Ore 62% (US\$/t)	82.49	-0.55	-9.67			ICE London Cocoa (GBP/t)	1,810	1.91	-0.49		

Source: Bloomberg, ING Research

## Author

### Warren Patterson

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group*

*(being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.