

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 200Mbbbls/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

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