The Commodities Feed: OPEC+ agrees to an extension

Your daily roundup of commodity news and ING views

Energy

There was no shortage of constructive news over the weekend, which has provided some further upside to the oil market in early morning trading.

As expected, the OPEC+ alliance agreed an extension of current output cuts through until the end of July. This will see July cuts of 9.6MMbbls/d, which is less than the 9.7MMbbls/d agreed for May and June, with Mexico unwilling to extend its current cuts beyond what was agreed back in April. The alliance also agreed that countries which have fallen short of hitting their quota so far, will improve compliance in the coming months, and in fact will make up for the lack of compliance so far. However given that there is no enforcement mechanism, it is difficult to believe that the likes of Iraq will suddenly start to comply with the deal. The deal does not change our medium/long term view of the market, and we expect ICE Brent to still average US$50/bbl over the final quarter of this year.

Following the meeting, Saudi Aramco made steep increases to its official selling prices (OSP) for all grades of crude oil, and into all regions for July. The OSP for Arab Light into Asia was raised by

US$6.10/bbl, leaving it at a premium of US$0.20/bbl to the Dubai/Oman benchmark.

Meanwhile, tropical storm Cristobal has meant that some offshore platforms in the US Gulf of Mexico have been evacuated, leading to production shut-ins. Data as of yesterday showed that almost 636Mbbls/d of oil production was shut in, which is equivalent to a little over 34% of total US Gulf of Mexico output.

On the demand side, trade data out of China shows that the country imported a record 11.34MMbbls/d of crude oil over May, up 15% MoM. However this record number does not mean that Chinese consumption has fully recovered from Covid-19. Instead, this is most likely just opportunistic buying, given the low price environment the market has been in for the last few months.

Finally, there has been one bearish development in the oil market in recent days, and that is the news that Libya has finally begun to restart production after blockades forced production to halt. The largest oilfield in the country, El Sharara, has restarted output, and it is expected to produce at around 30Mbbls/d initially and will reach its 300Mbbls/d capacity within 90 days. Meanwhile, there are also reports that the 70Mbbls/d El Feel field has restarted operations. Prior to the blockade, Libya was producing in the region of 1MMbbls/d of oil, and so if we do see output returning to these levels in the coming months, it would prove to be a bit of headache to OPEC+.

Metals

In base metals, prices of all major metals traded in the green, with copper prices leading the way, reaching close to US$5700/t on Friday. The unexpected rebound in the US labour market proved bullish for risk assets.

In terms of mine supply, in Peru, around 91% of large mines in the country have received approvals to resume mining operations, after meeting the Covid-19 prevention and control standards.

The latest inventory data released by Shanghai Futures Exchange (ShFE) continued to show a downward trend in stocks for most base metals. Copper inventories at exchange warehouses fell to 139kt (the lowest since 17 Jan) as of 5 June, compared to 145kt a week earlier. Meanwhile, aluminium stocks saw outflows of 30kt over the week, to total 266kt.

Turning to iron ore, and as rising numbers of workers tested positive for Covid-19, Vale on Saturday was forced to suspend activities at its Itabira mining complex, comprising of the Conceição, Cauê and Periquito mines. Despite this, Vale has left its annual production guidance unchanged at 310-330mt in 2020. The lower end of this guidance already includes a negative impact from Covid-19 related disruptions of 15mt.

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