The Commodities Feed: OPEC+ close to a deal?

The Commodities Feed: IEA sees a tighter market

Minister of Energy of the UAE, Suhail Mohamed Al Mazrouei attends a meeting of energy ministers from OPEC and its allies

Source: Shutterstock

Energy

Oil prices have come under pressure, with ICE Brent settling more than 2% lower yesterday, and also trading weaker in early-morning trading today. This follows reports yesterday that the UAE and Saudi Arabia have come to an agreement which will see OPEC+ increase output by 400Mbbls/d per month between August and December, as well as extending the OPEC+ deal through until the end of 2022 - it is currently due to expire in April. When talks initially broke down, this was because the UAE wanted its baseline used for production cuts increased. Reports suggest that they have got their way, with their baseline increased from around 3.2MMbbls/d to 3.65MMbbls/d. However, up until now, there has been no official statement from OPEC that a deal has been reached. The UAE energy minister has said that though talks have occurred, there is no agreement yet with OPEC+. Obviously, before we can see an agreement between all members, there would need to be another meeting.

The EIA's weekly inventory report yesterday was also not very supportive, despite crude oil inventories falling by 7.9MMbbls over the last week - the seventh consecutive weekly decline.

However, product inventories saw builds, with gasoline and distillate fuel oil inventories increasing by 1.04MMbbls and 3.66MMbbls. If we look at total stocks (oil and products), inventories actually increased by 2.49MMbbls. The data also showed a large reduction in implied demand over the week, with total product supplied falling by 2.24MMbbls/d. Gasoline and distillate fuel oil implied demand fell by 760Mbbls/d and 676Mbbls/d respectively.

Finally, OPEC will be releasing its monthly market report later today, which will include OPEC production numbers for June, along with the group's outlook on the market for the rest of the year.

Metals

LME 3M nickel fell by more than 1% yesterday after reports that Vale's Sudbury mine will resume talks with workers on 19 July, raising hopes that strike action which started on 1 June at the mine can be brought to an end. As for LME aluminium, it appeared to ignore supply risks from China - settling lower on the day. There were reports of further power rationing in Yunnan province, raising concerns over supply disruptions. Smelters in Yunnan originally planned to restore aluminium output by August. Until now plants have restored approximately 200kt per year of production out of a total of 900kt per year that had been curtailed earlier. Zinc smelters in the region may also find it difficult to boost production with power restrictions in place.

Agriculture

In its latest release, the Indian Sugar Mills Association (ISMA) estimates domestic sugar production to remain flat at around 31mt in the 2021/22 season (starting on 1st October 2021), compared to the expected output of 30.9mt in the current 2020/21 season. ISMA expects the sugarcane area to increase by around 3% YoY to 5.46m hectares; however, sugarcane diversion for ethanol production could also increase in the upcoming season, which will weigh on cane availability for sugar production. It is estimated that sugarcane diversion for ethanol production could increase to around 3.4mt of sugar equivalent next year compared to around 2.1mt this year. India is likely to finish the current year with exports of around 7mt, and healthy output next season means exports are likely to remain firm. India's sugar inventories are likely to fall to 8.7mt at the end of the 2020/21 season compared to around 10.7mt at the end of 2019/20.

Author

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