

The Commodities Feed: OPEC+ confirms supply increase

Your daily roundup of commodity news and ING views



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Energy

As widely expected OPEC+ confirmed yesterday that they will go ahead with their planned production increase over the next 2 months. This should bring an additional 700Mbbls/d of supply onto the market in June, and a further 840Mbbls/d in July (this includes the return of the additional voluntary cuts made by Saudi Arabia). Despite this confirmation, ICE Brent managed to settle above US\$70/bbl yesterday for the first time since May 2019. The market appears focused on the more constructive outlook for later this year, with OPEC+ of the view that the market will see significant stock drawdowns between September and the end of the year.

While the market has more clarity around what OPEC+ will do over the next 2 months, the group gave little away on what they plan to do after July. However, with their own estimates suggesting large stock drawdowns later in the year, we would expect that they increase output further through the year. The one key uncertainty for OPEC+ though is Iran and the timing around the potential lifting of US sanctions. Clearly, any supply increases from Iran in the coming months will be something that OPEC+ will have to consider when it comes to their production policy. Our view on the oil market remains unchanged following the OPEC+ meeting, and we continue to believe

that ICE Brent will average US\$70/bbl over 2H21.

Further support for the market yesterday came from comments from the IEA, with the agency of the belief that we could see global oil demand returning to pre-pandemic levels in a year, which would be quicker than many in the market are expecting. The IEA also warned that oil prices could strengthen further unless OPEC+ bring more supply back onto the market later in the year.

Finally, just to note, given that Monday was a public holiday in the US, the usual weekly inventory reports from the US will be delayed by a day. So API numbers will be released on Wednesday, whilst the EIA weekly numbers will be published on Thursday.

Metals

The stronger manufacturing PMI data from the US and China, along with a soft USD has kept the base metals complex buoyant. LME 3M copper managed to close above US\$10,000/t for a third consecutive day, while aluminium touched an intra-day high of US\$2,508/t, with continued support from the intensified production curbs from China's Yunnan province due to power shortages. Japanese aluminium buyers settled premiums at US\$185/t for 3Q21, a rise of 25% from the current quarter, and the highest quarterly premium seen since 2Q15. The rebound in the premium was widely expected with recovering demand and tight supplies.

The ongoing power issue in Yunnan has also affected the zinc market, with smelters in the region running at an average of 70% of their nameplate capacity, according to Antaike. The group estimates that this will lead to refined zinc production losses of around 20kt over June.

LME nickel traded back above US\$18,000/t touching an intraday high of US\$18,410/t - the highest level seen in three months. Prices crashed in early March after China's Tsingshan announced that it would commercially produce Class 2 nickel from nickel pig iron, leaving the battery metal the worst performer among LME base metals. However, a stronger stainless steel market in both China and Indonesia has supported the recovery in prices.

Finally, SGX iron ore futures bounced back above US\$200/t yesterday, the highest level in two weeks, after a major steel-making hub in China indicated it might ease production curbs, providing hope for higher raw material consumption. As per the latest market updates, local authorities in Tangshan city are planning to ease restrictions around iron smelting and lift emission controls to cool down the recent rally in steel prices. However, there has not been any official confirmation of this.

Agriculture

The latest update from the Indian Sugar Mills Association (ISMA) shows that Indian sugar production increased 13% YoY to 30.6mt this season so far which ends in September 2021. Sugar mills have contracted to export around 5.8mt of sugar since the start of the season, with around 4.4-4.5mt of sugar already shipped. The government reduced the export subsidy last month owing to stronger prices and contracted volumes approaching the government target of 6mt for the current season. Looking ahead, the Indian Meteorological Department expects a normal monsoon this season with rains of around 101% of the historical average, which will be helpful for plantation and crop development and should support sugar supply over the next season as well.

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