

The Commodities Feed: OPEC+ cuts

Your daily roundup of commodity news and ING views



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Energy

Oil markets got a boost on Friday after OPEC+ agreed to deepen production cuts over 1Q20 by 500Mbbbls/d, taking total cuts to 1.7MMbbbls/d. While cuts of 500Mbbbls/d are not overly bullish, given that OPEC+ are already over-complying with the current deal, what made the announcement constructive (and a surprise to the market), was the fact that Saudi Arabia said it will produce around 400Mbbbls/d below its new quota level. This would effectively take OPEC+ cuts to 2.1MMbbbls/d.

Saudi Arabia's new quota level will be around 10.1MMbbbls/d, and so they would be producing at around 9.7MMbbbls/d over the first quarter, which is slightly lower than the 9.8MMbbbls/d that production has averaged so far over 2019.

While this is clearly more than the market was expecting and has been constructive in the immediate-term, the key question is whether this is enough. We do not expect that these cuts will bring the market to balance over 1Q20. However, the cuts will take a significant surplus down to less daunting levels. The deal is still set to last only through until the end of 1Q20, while the balance sheet continues to show a large surplus over 2Q20. Therefore, assuming no significant changes in expectations of non-OPEC supply growth, we would expect that OPEC+ would have to roll over the deal through until the end of June 2020, though the level of cuts will likely revert back

to 1.2MMbbls/d from the current 1.7MMbbls/d. This decision will likely be made in early March when OPEC+ is set to meet once again.

Metals

(London Metal Exchange) LME metal prices were well supported on Friday after reports emerged that China is prepared to waive import tariffs on US soybean and pork products and that both countries are edging closer to an agreement. Meanwhile, a better-than-expected US non-farm payroll outcome in November also gave market-sentiment a boost.

Nickel was an outperformer with 1.5% gains on Friday, recouping some of the losses made earlier in the week on speculation that China's Nickel Pig Iron (NPI) output could soften in December due to a squeeze on profit margins for NPI producers. On LME, cancelled warrants for nickel stocks increased by 3,606 tonnes, pushing down LME nickel on-warrant stocks to a 1-month low of 35,946 tonnes. This provided further support to nickel. However, nickel supply from Indonesia is likely to remain strong in December - the last month before export restrictions are enforced - which would keep the market well supplied in the short-term at least.

On the trade side, China Customs released headline import and export data on major commodities on Sunday for November. Exports of unwrought aluminium and semis products managed to grow by 4.9% MoM, temporarily dismissing concerns over slowing exports. Imports of copper concentrate remained very strong, reflecting increased smelter capacity. Meanwhile 'unwrought copper and copper semis' imports registered strong growth of 12.1% from the prior month, although the year-to-date figure was still down by 8.5% on a year-on-year basis.

Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	64.39	1.58	19.68			Spot Gold (US\$/oz)	1,460.2	-1.07	13.85		
NYMEX WTI (US\$/bbl)	59.2	1.32	30.37			Spot Silver (US\$/oz)	16.6	-2.30	6.98		
ICE Gasoil (US\$/t)	587	0.64	14.98			LME Copper (US\$/t)	5,990	1.73	0.42		
NYMEX HO (Usc/g)	195	0.99	16.14			LME Aluminium (US\$/t)	1,765	1.03	-4.39		
Eurobob (US\$/t)	570	1.08	18.91			LME Zinc (US\$/t)	2,238	0.18	-9.28		
NYMEX RBOB (Usc/g)	165	1.62	24.45			LME Nickel (US\$/t)	13,475	1.51	26.05		
NYMEX NG (US\$/mmbtu)	2.33	-3.83	-20.61			CBOT Corn (Usc/bu)	367	0.27	-2.27		
TTF Natural Gas (EUR/MWh)	15.14	-1.78	-31.12			CBOT Wheat (Usc/bu)	533	0.09	5.81		
API2 Coal (US\$/t)	56	-2.53	-34.00			CBOT Soybeans (Usc/bu)	890	0.59	0.79		
Newcastle Coal (US\$/t)	68	-1.02	-33.33			ICE No.11 Sugar (Usc/lb)	13.18	0.76	9.56		
SGX TSI Coking Coal (US\$/t)	144	0.00	-32.02			ICE Arabica (Usc/lb)	124	-0.20	21.45		
SGX Iron Ore 62% (US\$/t)	87.26	0.47	25.61			ICE London Cocoa (GBP/t)	2,002	1.01	13.36		

Source: Bloomberg, ING Research

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