

The Commodities Feed: OPEC cuts demand estimates

Your daily roundup of commodity news and ING views



Energy

The gains that the oil market made in the earlier part of the day yesterday, following the constructive API numbers, were largely given back following the OPEC monthly market report, in which the group revised lower their demand expectations for both this year and next. OPEC lowered their demand estimates by 300Mbbbls/d for this year, and so now expect demand to shrink by 9.8MMbbbls/d YoY over full-year 2020. The revisions were driven by weaker than expected demand in the Americas, while recently announced lockdowns in parts of Europe will likely weigh on oil demand over the final quarter of this year. For 2021, the group made a similar cut of 300Mbbbls/d to its demand forecast, and it now expects global oil demand to grow by only 6.2MMbbbls/d YoY.

In terms of demand for OPEC oil, the group estimates this to be 22.15MMbbbls/d in 2020 and 27.37MMbbbls/d in 2021. This compares to OPEC production of 24.39MMbbbls/d in October. The big question though is where will demand for OPEC oil be in 1Q21? At the moment this is estimated at 26.85MMbbbls/d. But obviously, OPEC will want to produce well below this number in order to ensure that the market is drawing down inventories. Therefore we think it is crucial that OPEC+ agree to rollover current cuts at least through until the end of 1Q21, rather than easing cuts from

7.7MMbbls/d to 5.8MMbbls/d, as they are currently set to do.

Finally, later today the IEA will release their monthly market report, and we would expect the agency to also make some downward revisions to their demand forecasts, given the latest lockdowns. This will then be followed by the weekly EIA inventory report, which was delayed by a day due to Veterans Day. Expectations are that US crude oil inventories declined in the region of 2MMbbls over the last week, although API numbers this week showed a crude oil inventory draw of 5.15MMbbls.

Metals

Base metals traded lower yesterday, with the exception of aluminium, which reached an intra-day high of US\$1928.75/t, due to falling Chinese inventories. The latest data from SMM shows that aluminium ingot inventories in eight major consuming sectors in China (including Shanghai and Wuxi) declined to 635kt as of Monday, and compares to the recent peak of 1.68mt in April. This leaves inventories at their lowest level since January, and the drawdown has been aided by the recovery in the construction, automobile, and photovoltaic sectors.

Turning to zinc, and reports suggest that Chinese smelters are considering setting up a CSTP-like group to negotiate supply deals with international counterparts. In the past, the annual TC (treatment charge) benchmark has usually been agreed between Canadian miner Teck Resources and smelter Korea Zinc, while China remains the largest producer of refined zinc. In March the benchmark price was set at US\$299.75/t, the highest in 12 years. However, spot market TCs have fallen significantly after the mine's supply was hit by Covid-19 related restriction measures. The pressure on spot TCs was exacerbated by smelters seeking more concentrate to build their stockpiles for the winter. Spot TCs in the import concentrate market have dropped to an average of US\$80/t compared to US\$300/t at the start of the year.

Agriculture

UNICA reported that sugar cane crushing in Center-South Brazil dropped to 26.8mt over the second half of October 2020, down 18.3% YoY. However, sugar production in the region still increased by 14.5% YoY to 1.74mt as millers continue to allocate a large share of cane towards sugar production. For the mentioned period, sugar mills allocated 43.6% of cane to sugar production compared to 32% a year ago. Cumulative CS Brazilian sugar production has increased by 44% YoY to total 36.3mt so far this season.

Turning to grains, and the Chinese Agriculture Outlook Committee (CAOC) has kept its corn production and import estimates unchanged at 264.7mt (+1.5% YoY) and 7mt (down 7.9% YoY) for marketing year 2020/21 (October 2020 to September 2021). The import estimates are at odds with the increased Chinese purchases of US corn over the past few months as the country attempts to meet targets under the phase-1 trade deal.

On the supply side, Russia has proposed an export quota of 15mt for grains during the period between 15 Feb to the end of the marketing year in June 2021. The country has exported 23.3mt of grains in the season so far, with wheat exports at 19.5mt. The quota is proposed to restrict sales of grains during the off-peak season to ensure the domestic market remains well supplied. Russia's domestic wheat price rose significantly this year as export demand surged with fears of a supply shortage due to Covid-19.

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