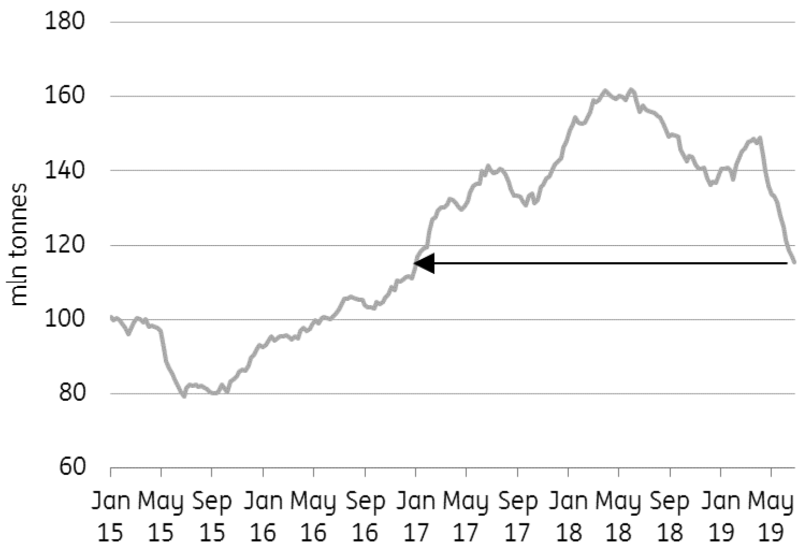
The Commodities Feed: OPEC cuts offer little support

Your daily roundup of commodity news and ING views

Chinese iron ore port inventories (m tonnes)



Source: Bloomberg, Steelhome

Energy

OPEC cuts: There was little in the way of surprises from yesterday's OPEC meeting, with members agreeing to extend production cuts for nine months, which would see the deal last through until the end of March 2020. OPEC did point out concerns over lower than expected demand growth, while we continue to see robust non-OPEC supply growth. Extending cuts for nine months rather than six should give the market some comfort that OPEC is looking at the supply and demand picture beyond this year. However looking at the price action, the market clearly was not that impressed with the deal. This does suggest that participants are more concerned about why OPEC needs to prolong cuts into 2020- weaker than expected demand growth, along with robust non-OPEC supply.

The Saudis continue to remain committed to the deal, with the Saudi energy minister saying that the Kingdom will continue to produce below its quota level of around 10.3MMbbls/d. Rather than bring oil inventories back down to the five-year average, the Saudi minister said that OPEC wants to bring inventories down to the 2010-2014 range.

A second day of meetings begins today, including the non-OPEC members of the deal. Given comments from Russian President Vladimir Putin at the G20 Summit in support of cuts, it's expected that non-OPEC members of the deal will confirm an extension today.

We do believe that the extension of cuts will be broadly supportive for the oil market for the remainder of the year.

Metals

Iron ore strength: Iron ore prices continued to rise on supply constraints and anticipated firm demand from China. The most active contract on China's Dalian Commodity Exchange broke above 890 CNY/t this morning. The supply shortfall from both Brazil and Australia plays a key role in keeping the market in deficit. Recent data from the Australian Bureau of Statistics forecasts the nation's iron ore exports to drop in 2019, the first contraction since 2001.

Meanwhile, iron ore inventories at Chinese ports are now at multi-year lows due to reduced shipments from Brazil after Vale's dam accident along with the fact that steelmakers' demand has remained firm. This also serves as evidence for market bulls that output curbs have not been strictly implemented. To get a real picture on the implementation of output curbs is difficult, but if we were to see a reversal in iron ore inventory, this would sound the alarm bell for the bulls.

Caixin PMI data released on Monday indeed looks worrying, but there are some economic stimulus measures expected in the sector, which would be supportive for steel demand.

Chinese copper treatment charges: SMM data shows that spot treatment charges for copper concentrate in China dropped from US$64/t in May to US$60/t in June, reflecting a tightening in the concentrate market. Output disruptions from Indonesia, Africa and Chile have tightened the market in recent weeks. Yangshan copper premiums have also started to recover from the lows of US$47/t in May to US$59/t currently.

Agriculture

US crop progress: The USDA's weekly crop progress report shows that the current corn crop continues to lag behind in development with only 56% of the crop in good to excellent condition, flat on a weekly basis and significantly down compared to last year's 76%. For soybean, plantings increased from 85% to 92%, though down compared to a five-year average of 99% for this time of the year. Some 54% of the soybean crop was rated good to excellent, the same as last week, but lower than the 71% seen at this stage last year. Poor crop prospects combined with the restart of Chinese buying of US agri products should be supportive for CBOT corn/soybean over the coming weeks.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**65.06**	-2.24	20.93	Spot Gold (US$/oz)	**1,384.2**	-1.80	7.93
NYMEX WTI (US$/bbl)	**59.09**	1.06	30.13	Spot Silver (US$/oz)	**15.1**	-1.11	-2.26
ICE Gasoil (US$/t)	**591**	-0.76	15.61	LME Copper (US$/t)	**5,955**	-0.64	-0.18
NYMEX HO (Usc/g)	**195**	0.47	16.24	LME Aluminium (US$/t)	**1,794**	-0.33	-2.82
Eurobob (US$/t)	**633**	5.33	32.02	LME Zinc (US$/t)	**2,462**	-1.32	-0.20
NYMEX RBOB (Usc/g)	**193**	-0.62	45.84	LME Nickel (US$/t)	**12,350**	-2.68	15.53
NYMEX NG (US$/mmbtu)	**2.27**	-1.78	-22.89				
TTF Natural Gas (EUR/MWh)	**10.37**	2.45	-52.85	CBOT Corn (Usc/bu)	**412**	-1.96	9.87
				CBOT Wheat (Usc/bu)	**514**	-2.65	2.14
API2 Coal (US$/t)	**56**	0.81	-34.65	CBOT Soybeans (Usc/bu)	**886**	-1.58	0.34
Newcastle Coal (US$/t)	**70**	3.35	-31.46	ICE No.11 Sugar (Usc/lb)	**12.57**	2.03	4.49
SGX TSI Coking Coal (US$/t)	**186**	-2.62	-12.26	ICE Arabica (USc/lb)	**110**	1.76	8.15
SGX Iron Ore 62% (US$/t)	**113.85**	0.87	63.88	ICE London Cocoa (GBP/t)	**1,799**	1.58	1.87

Source: Bloomberg, ING Research

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