

The Commodities Feed: OPEC+ cuts & US inventories

Your daily roundup of commodity news and ING views



Source: Shutterstock

Energy

OPEC cuts & US inventories: Signs of progress in trade talks appear to be offering some support to the oil market. This, however, is not the only driver behind the recent strength. If we look at the fundamentals, they are constructive, at least in the prompt market. ICE Brent time spreads continue to trade well in backwardation, suggesting a tightening in the physical market. Meanwhile the strength also reflects growing expectations that OPEC+ will agree to make deeper cuts, as well as extend the deal until mid-2020 at their meeting next week. It is important to point out that this expectation is also a key downside risk, if OPEC+ fail to act.

This week, OPEC's Economic Commission Board is set to meet on Wednesday and Thursday, and they will likely make their recommendation on what OPEC should do in terms of production cuts over 2020. While the board can make a recommendation, there is no certainty that OPEC ministers will follow this advice when they meet the following week.

Looking at data releases today, the API is set to publish its weekly US inventory numbers, and expectations are that US crude oil inventories declined by 939Mbbbls over the last week, according

to a Bloomberg survey. Confirmation of a stock draw from the API today, and the EIA tomorrow could offer some immediate support to the market, with the last stock drawdown seen in mid-October.

Canadian oil: Canadian oil differentials have not had a good time in recent weeks, West Canada Select (WCS) differentials initially weakened following the suspension of the Keystone pipeline after the discovery of a leak. Now the ongoing rail strike in Canada is adding further pressure. The WCS discount to WTI has widened from US\$16/bbl last Monday to US\$19.25/bbl currently.

Metals

LME aluminium stocks increase: LME aluminium is facing strong headwinds from a surge in reportable inventory. Stocks have risen from 956.2kt at the beginning of November to 1.23m tonnes on Monday. Growing inventory has coincided with strengthening time spreads in the front end, with the cash-three month spread trading to a backwardation of \$13.5/t last week. This has attracted some deliveries into the LME sheds. Meanwhile, looking at China stocks continue to decline. The divergent trend in stock movement is clearly once again driving the divergence in price between the LME and ShFE.

Physical gold demand: Data from China's National Bureau of Statistics shows that non-monetary gold imports declined by 43% MoM (down 64% YoY) to at least a three year low of 34.9 tonnes in October. This leaves YTD gold imports down 41% YoY to total 793 tonnes. Stronger gold prices, a weaker currency and slowing growth have weighed on retail gold demand in the country. It is a similar situation in India, where higher prices especially in local currency terms, along with higher import duties and slowing growth have also pressured gold imports.

Agriculture

US crop exports: Latest data from the USDA shows that soybean export inspections over the last week totaled 1.94mt, up from 1.12mt for the same week last year. This takes total soybean export inspections so far this season to 14.38mt, up from 12.2mt at the same stage last year. This increase does reflect the increased buying we have seen from China, as a result of the tariff quotas that the Chinese government provided to buyers. Further purchases will likely depend largely on how phase one of the trade deal plays out.

Turning to corn and export inspections continue to disappoint. 605kt of corn was inspected for export over the last week, compared to 1.18mt for the same week last year. Cumulative inspections paint a similar picture, with just 5.6mt of corn inspected so far this season, compared to 13.2mt at the same stage last year. These lower numbers come at a time when Brazilian corn exports have hit record levels in recent months, with a record 2018/19 crop.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	63.65	0.41	18.31	Spot Gold (US\$/oz)	1,455.3	-0.46	13.47
NYMEX WTI (US\$/bbl)	58.01	0.42	27.75	Spot Silver (US\$/oz)	16.9	-0.78	9.00
ICE Gasoil (US\$/t)	583	0.17	14.10	LME Copper (US\$/t)	5,868	0.22	-1.63
NYMEX HO (Usc/g)	194	0.77	15.68	LME Aluminium (US\$/t)	1,736	-0.17	-5.96
Eurobob (US\$/t)	585	0.08	21.87	LME Zinc (US\$/t)	2,281	-1.04	-7.54
NYMEX RBOB (Usc/g)	167	0.03	26.52	LME Nickel (US\$/t)	14,480	-1.06	35.45
NYMEX NG (US\$/mmbtu)	2.53	-5.03	-13.91				
TTF Natural Gas (EUR/MWh)	16.24	1.18	-26.14	CBOT Corn (Usc/bu)	371	0.47	-1.20
				CBOT Wheat (Usc/bu)	531	3.06	5.51
API2 Coal (US\$/t)	60	-0.74	-29.04	CBOT Soybeans (Usc/bu)	893	-0.50	1.13
Newcastle Coal (US\$/t)	69	-2.32	-31.51	ICE No.11 Sugar (Usc/lb)	12.82	-0.08	6.57
SGX TSI Coking Coal (US\$/t)	140	0.00	-33.96	ICE Arabica (Usc/lb)	118	2.79	15.66
SGX Iron Ore 62% (US\$/t)	89.08	3.04	28.23	ICE London Cocoa (GBP/t)	2,049	0.10	16.02

Source: Bloomberg, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.