The Commodities Feed: OPEC+ extension

Your daily roundup of commodity news and ING views

Source: Shutterstock

Energy

ICE Brent continues to strengthen, breaking above US$40/bbl in early morning trading today, with growing optimism that OPEC+ will extend current cuts for at least another month. Media reports suggest that the Russians are in agreement for a one-month extension. The key question though is whether this extension is something that the market really needs? Prices have strengthened significantly over the last month, given the demand recovery and current supply cuts. The market was already set to transition from surplus to deficit as we move into the second half of this year, and so prices were set to strengthen over the remainder of the year. Clearly, even deeper cuts will speed up the process of rebalancing the market. While it appears that the alliance are moving towards consensus on an extension, what they still have not agreed on is the timing of the meeting. The meeting is still scheduled for the 9-10 June. However, there have been calls to bring the meeting forward to the 4 June.

Meanwhile, the strength in oil prices is already seeing signs of some US producers bringing back shut-in wells. Parsley Energy Inc has said that it will bring back all of the 26Mbbls/d of output it cut earlier, whilst EOG Resources has said that it will start to bring back wells next month.

Finally, API numbers released overnight showed that US crude oil inventories declined by 483Mbbls over the last week, while stocks at the WTI delivery hub, Cushing fell by 2.2MMbbls. If the EIA later today confirm a stock drawdown at Cushing, it would be the fourth consecutive week of inventory declines at the hub. It is these declines that have helped to narrow the discount that WTI has been trading to Brent in recent weeks, with the discount reaching as little as US$2/bbl for the August contracts. API numbers were more bearish on the product side, reporting builds of 1.7MMbbls and 5.9MMbbls in gasoline and distillate fuel oil respectively.

Metals

The bulk of industrial metals continued to edge higher yesterday, driven by more optimistic macro assumptions and a tighter supply scenario, especially from South America. In the latest preliminary sales report released yesterday, car sales from China surprised, with a quick snap back in May according to China Association of Automobile Manufacturers (CAAM), with sales growing by 11.7% YoY to 2.13 units.

LME copper prices settled above the US$5,500/t mark yesterday, while nickel was the outperformer, settling 1.8% higher on the day, after SMM data suggested that the nickel manufacturing PMI in China expanded for a third consecutive month in May.

Negotiations for aluminium physical premia into Japan are currently underway, with initial reports suggesting that buyers were offered a premium of US$85/t for 3Q20 deliveries compared to US$82/t for 2Q20 deliveries and spot premiums of around US$80/t. The higher premium reflects some recovery in Japanese demand for aluminium, though the premium still remains well below the US$108/t seen a year ago.

Turning to precious metals, and India's gold imports remained negligible in May due to the nationwide lockdown. Media reports suggest that India imported around 1.4 tonnes of gold in May, compared to around 134 tonnes a year ago.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com