

The Commodities Feed: OPEC+ JMMC set to meet this week

Your daily roundup of commodity news and ING views



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Energy

Oil has got a boost along with other risk assets in early morning trading in Asia, with markets responding positively to the US ruling out a nationwide lockdown, despite the surge in Covid-19 cases across the country. In Europe though, lockdowns are not proving great for demand. According to highway operator, Vinci, traffic on French highways fell by 48% in the week ending 8 November. On the supply side, Libya's National Oil Corporation on Friday said that the country is now pumping 1.145MMbbls/d of crude oil, a significant increase from the little over 100Mbbls/d the country produced in August. Both weaker demand across Europe, along with Libyan supply edging higher should already be largely priced into the market, which is what price action this morning suggests.

Looking at COT data, and unsurprisingly with the rally we have seen in the market, speculators increased their net long in ICE Brent quite substantially over the last reporting week, with speculators buying 35,565 lots to leave them with a net long of 129,960 lots as of last Tuesday. The bulk of the move was driven by shorts covering their position, with the gross short decreasing by 27,082 lots. Data released by the CFTC is delayed due to a US holiday last week, and so data for

WTI will only be released later today.

Baker Hughes also reported on Friday that the US oil rig count increased by 10 last week, taking the total number of active oil rigs to 236. While we have seen 64 rigs added in the US since the lows in mid-August, the rig count still remains well below pre-Covid-19 levels, with the number of active oil rigs standing at 683 back in mid-March.

Finally for oil, the OPEC+ Joint Ministerial Monitoring Committee is set to meet tomorrow, and while we will not get any decision on what OPEC+ will do when it comes to production cuts in 2021, we will certainly get plenty of noise. The committee may make a recommendation, but we will have to wait until the full OPEC+ meeting on the 30 November and 1 December for a final decision to be taken. We are still of the view that OPEC+ will need to extend current cuts of 7.7MMbbls/d by at least another 3 months, in order to ensure that the market draws down inventories over the first quarter of next year.

Metals

LME aluminium jumped to its highest levels since March 2019 last week, with optimism around Chinese demand. The drawdown in total reportable aluminium inventories in China (-38kt WoW) last week exceeded market expectations, which saw expectations pushing ShFE prices higher, with the third-month contract gaining 3.5% over the week, compared to 2% in the LME 3M. The front-month contract to the third month spread tightened to a backwardation of RMB490/t - levels last seen back in July.

The relative strength between the two markets saw the aluminium arbitrage briefly turn positive for China to import. This could suggest that the strong imports we have seen since 2Q20 may repeat themselves in November if traders have seized this opportunity. The drawdown in total reportable inventories is evidence of physical demand remaining strong, with demand even outweighing the pressure from strong supply growth. Strong smelter margins have been incentivizing restarts and the ramping up of new capacity. By early November, capacity in operation would have risen by around 2.4mt, and there is roughly another 900kt scheduled to come online before the end of the Lunar Year.

The Shanghai International Energy Exchange (INE) will be starting trading its new copper contract this Thursday, and the delivery of the metal will be into bonded warehouses. Total copper stocks in bonded warehouses currently stands at around 361kt according to SMM.

In the physical market, the market awaits updates on next year's benchmark treatment charge talks between major copper smelters and miners, which usually occurs during CESCO week. However, this year the gathering is cancelled due to Covid-19, and so any negotiations will be done virtually. On the mining side, the latest development from Lundin's Candelaria mine is that the union representing the miners may still reject the new proposal from the management, and a vote will take place on Tuesday. Meanwhile, BHP's Spence copper mine was successful in reaching an early deal with supervisors, with a contract that will run until November 2023.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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