

The Commodities Feed: OPEC+ needs to cut

Your daily roundup of commodity news and ING views



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Energy

The move lower in oil continued yesterday, with ICE Brent settling more than 3.8% lower on the day and getting ever closer to the US\$50/bbl level. Early morning trading today has been more positive, but we will need to see if the market can hold onto these gains as the day progresses given the current environment. With China returning from Lunar New Year holidays, markets will start to get a better idea of the scale of the impact from the Coronavirus. Fuel demand is clearly getting hit, and while this is reflected in the outright price in Brent, the prompt time spreads are confirming the demand hit, with the ICE Brent Apr/May spread now trading well into contango as Chinese refinery demand retreats and prompt tightness in the market eases. A number of independent refiners in China are trying to defer crude shipments given the build-up in refined product stocks. And there are reports that as many as 18 independent refiners in the country will trim run rates or shut.

As we mentioned yesterday, there are reports that Chinese demand has fallen by around 20%, which is equivalent to almost 3MMbbls/d. The issue for the market is if travel restrictions continue for an extended period of time, this 3MMbbls/d demand loss will become increasingly difficult for

the market to swallow. While we have already seen a significant move lower in oil prices since the start of the outbreak, the risk to prices clearly remains to the downside given the potential for this virus to drag on, or, even more worryingly, to pick up outside China. Our chief Asian economist [points out](#) that the number of non-China coronavirus cases does appear to be slowing. But he warns not to read too much into this slowing just yet.

While it looks increasingly likely that OPEC+ will be forced to act, the big question is whether they would be able and willing to cut significantly more. A 500Mbbls/d additional cut may be possible, but anything beyond that would be hard to achieve as it becomes questionable who would be able to make significant cuts beyond Saudi Arabia and Russia. The Saudis are already over-complying with the current deal, and so there is likely a limit on how much more they would be willing to cut. Therefore, if demand losses at the current scale persist into the second quarter, we will likely see even weaker prices.

Sticking with OPEC, estimates from a Bloomberg survey put the group's production at 28.37MMbbls/d over January, down 500Mbbls/d MoM. The fall in output reflects the deeper cuts that OPEC+ agreed for 1Q20, whilst the bulk of the reduction was driven by Libya, where we have seen export blockades weigh on production. Output in the country over January averaged 790Mbbls/d, down 320Mbbls/d MoM. The longer the blockades last, the more this number will fall, with current production reportedly standing at a little over 200Mbbls/d.

Metals

Having started the day stronger yesterday, LME markets came under renewed pressure as the day progressed - all eventually settling lower. This happened despite China's PBoC pumping liquidity into markets in order to support the economy amid the on-going virus outbreak. Later in the day we also saw a better-than-expected ISM manufacturing PMI reading from the US, which came in at 50.9 for January.

Meanwhile with the SHFE market re-opening yesterday, and market participants returning, more news has been coming through on the impact of the virus on domestic metal markets. According to Bloomberg reports, two major smelters in China – Jiangxi Copper and Tongling Nonferrous Metals are expected to take measures as a result of lower demand for refined products. Jiangxi Copper might cut its refined copper output, while Tongling Nonferrous Metals is planning to shift inventories to exchange warehouses. SHFE copper stocks stood at 156kt as of 23 January, with reported inflows of 15kt since the start of the year. As we discussed yesterday, as many have been focusing on demand disruptions, one must not forget the risks brewing on the supply side. Some smelters engaging in copper, zinc and lead production may find it a struggle to dispose of sulphuric acid, which is a by-product of smelting if logistical issues persist.

Finally, the latest data from China Customs shows that nickel ore imports from Indonesia jumped 59% YoY to total 24mt in 2019, as buyers rushed to secure their supplies ahead of the Indonesian mineral export ban which came into force at the beginning of this year. Total nickel imports in 2019 stood at 56mt, up 20% YoY.

Agriculture

The sugar market has largely ignored the pressure we have seen on broader markets as a result of the coronavirus. In fact no.11 raw sugar prices briefly traded above US\$15/lb yesterday, levels last seen back in early 2018. Meanwhile, the March/May time spread continues to trade deeper into

backwardation, suggesting a tightening in the prompt physical market. The latest production numbers out of India yesterday showed that cumulative sugar production through until the end of January stood at 14.1mt, down 24% YoY, while the Indian Sugar Mills Association continues to hold a full season production estimate of 26mt, which would leave the domestic market largely balanced in the 2019/20 season. Data from the European Commission also shows that cumulative sugar exports over the 2019/20 season have fallen 62% YoY to total just 291kt as of 22 January, owing to the smaller harvest this season. This has provided further support to the market and in particular, the whites market, with the March whites premium edging ever closer to the US\$90/t level.

Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	54.45	-3.83	-16.60			Spot Gold (US\$/oz)	1,576.7	-0.78	3.92		
NYMEX WTI (US\$/bbl)	50.11	-2.81	-17.93			Spot Silver (US\$/oz)	17.7	-2.00	-0.95		
ICE Gasoil (US\$/t)	484	-3.49	-21.22			LME Copper (US\$/t)	5,525	-0.75	-10.51		
NYMEX HO (Usc/g)	158	-2.87	-22.21			LME Aluminium (US\$/t)	1,687	-2.06	-6.82		
Eurobob (US\$/t)	508	-1.48	-12.57			LME Zinc (US\$/t)	2,146	-2.45	-5.55		
NYMEX RBOB (Usc/g)	147	-1.01	-13.20			LME Nickel (US\$/t)	12,725	-0.97	-9.27		
NYMEX NG (US\$/mmbtu)	1.82	-1.20	-16.90								
TTF Natural Gas (EUR/MWh)	9.21	-5.58	-23.57			CBOT Corn (Usc/bu)	379	-0.66	-2.32		
						CBOT Wheat (Usc/bu)	556	0.32	-0.58		
API2 Coal (US\$/t)	48	-0.83	-11.75			CBOT Soybeans (Usc/bu)	877	0.52	-7.00		
Newcastle Coal (US\$/t)	67	0.83	-3.19			ICE No.11 Sugar (Usc/lb)	14.89	1.92	10.95		
SGX TSI Coking Coal (US\$/t)	148	-1.05	4.90			ICE Arabica (Usc/lb)	98	-4.63	-24.52		
SGX Iron Ore 62% (US\$/t)	78.01	-4.31	-14.58			ICE London Cocoa (GBP/t)	1,935	-1.02	6.38		

Source: Bloomberg, ING Research

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