

The Commodities Feed: OPEC+ set to meet amid soaring Indian Covid-19 cases

Your daily roundup of commodity news and ING views



Energy

The oil market continues to struggle to find direction, with prices remaining largely rangebound. A concern for the market is the surge in Covid-19 cases in India, where the number of daily cases has hit a record of almost 350,000. While the government has not imposed a national lockdown, we are instead seeing regional restrictions, so the impact on oil demand at least for now will not be as severe as we saw during the national lockdown last year. However, there will clearly be some impact, and some refiners in the country are already reacting to weaker fuel demand by reducing run rates. Bloomberg reports that Mangalore Refinery and Petrochemicals Ltd. cut refinery throughput by 15% in April, and this could be further cut over May. If the situation in India fails to improve any time soon, it's likely only a matter of time before other refiners follow by cutting operating rates, which would not be great for crude oil demand, particularly when you consider that India is the third largest crude oil importer, behind China and the US.

The situation in India is likely something that OPEC+ ministers will discuss when they meet on Wednesday. OPEC+ are set to hold their full ministerial meeting, despite earlier suggestions that the group might skip it, given that they have already agreed on their production policy until the end of July. While some OPEC+ members may be concerned about the situation in India, we do

not believe that the group will drift from its policy of easing output from 1 May.

It is not just the demand uncertainty that OPEC+ will have to deal with, they will also need to consider the possible outcome of Iranian nuclear talks, and what this would mean in terms of additional supply coming onto the market. Talks are still ongoing, and will enter a third week in Vienna. As we have mentioned before, the impact from a lifting of sanctions will be less severe the longer it takes to find a resolution. Iran in recent months has already increased supply, and so the additional supply that does eventually make a return when and if sanctions are lifted will be of less concern. We are also assuming that Iranian supply returns to 3MMbbls/d by the end of this year (up from around 2.3MMbbls/d currently), and yet our balance sheet still shows that the market will draw down inventories. Therefore, while the headline might hit sentiment, fundamentally it is not as bearish as it may appear.

Finally, looking at positioning data for ICE Brent, speculators increased their net long by 13,589 lots over the last reporting week to leave them with a net long of 305,744 lots as of last Tuesday. In addition to this, the spreading position within the managed money segment increased by 29,563 lots over the week, and it shouldn't be too much of a surprise given the strength that we have seen in the timespreads more recently. We also appear to have seen some increased producer hedging recently, with producer shorts in ICE Brent increasing by 48,979 lots over the week. It's a similar trend in NYMEX WTI, with producers appearing to have increased their hedging activity, with the producer short in WTI increasing by 21,044 lots to leave the gross short at 712,093 lots, which is the largest position seen since May 2017. This could suggest that producers are not overly confident that the market has significant upside from current levels.

Metals

The ferrous metals space has been on a tear this morning, with SHFE steel rebar prices trading to record highs, whilst the most active SGX iron ore contract traded as high as US\$189.60/t at one stage this morning. At the end of last week we saw further restrictions placed on Chinese steel producers, with mills in Handan city in Hebei province now facing production control measures through until the end of June, in order to try lower carbon emissions. Steel margins in China are very attractive, and there is every incentive for producers in other regions to maximize output, which continues to offer support to iron ore demand.

Turning to copper, and LME prices this morning briefly traded above US\$9,600/t, with some support probably coming from news that port workers in Chile plan to go on strike today, with the government looking to block a bill that would allow Chileans to withdraw further amounts from their pensions early. Last week mining unions in the country also threatened to take action if the bill was blocked.

Agriculture

CBOT corn ended last week up more than 10%, and this strength has continued this morning with the market up a further 1.7% at the time of writing. Concerns over dry weather in Brazil, and the impact this could have on the safrinha corn crop has proved bullish. There are estimates that almost 60% of the safrinha crop could witness drought stress. While, there are also worries over the impact cold weather in the US may have on corn plantings. Looking at the latest CFTC positioning data, while speculators reduced their net long in CBOT corn by 17,995 lots over the last reporting week, the overall position remains very close to multiyear highs, with speculators holding a net long of 383,998 lots as of last Tuesday.

Looking ahead, the European Commission is scheduled to release its monthly crop condition report later today, whilst the International Grains Council will release its latest monthly report on the grains market this Thursday.

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