The Commodities Feed: OPEC+ sticks to its plan

Your daily roundup of commodity news and ING views

Energy

Yesterday's OPEC+ meeting offered little relief to the market. As widely expected the group agreed to a further output increase of 400Mbbls/d for March. The concern for the market is that whilst the group may announce sizeable production increases, in reality what the market will see is smaller. This has been evident for several months now, including for January. Preliminary numbers show that OPEC pumped 28.14MMbbls/d in January according to a Bloomberg survey. This is an increase of just 50Mbbls/d MoM, a far cry from the slightly more than 240Mbbls/d that OPEC could have increased production by. Admittedly the group's production was weighed down by Libya, who is not part of the output deal. Libyan output fell by around 140Mbbls/d in January. If we strip out the OPEC members who are not part of the output deal (Libya, Iran and Venezuela) and focus on the OPEC-10, output then increased by 160Mbbls/d MoM- still short of the agreed increase.,

European gas prices have come under some downward pressure in recent days. Russian pipeline flows have picked up from the low levels that we saw for much of January. In addition, European hub prices continue to trade at a premium to spot Asian LNG, which should ensure that spot cargoes make their way to Europe. However, whilst we are seeing some relief, the market is still tight. European gas storage is a little more than 37% full, compared to a 5-year average of almost 53%. There is also still plenty of geopolitical risk around Russia-Ukraine, and what a further escalation could mean for Russian gas flows to Europe.

Metals

The overall metals complex remained firm amid a weaker dollar and thin market volumes. Copper rebounded for a third consecutive day and prices in the short-term are largely drifting with dollar moves and the outlook for Fed policy. However, aluminium slipped from its recent highs, likely triggered by signs of rising Russian gas deliveries via key pipelines, easing the risk of further disruptions from European smelters.

As for LME inventories, the market continues to see outflows in major base metals, which has provided strong support. The frontend spreads remain vulnerable to sudden spikes due to tightness. In nickel, a tight market saw the cash/3M spread surge to US$570/t on Tuesday (the highest since June 2007) but retreat to around US$455/t yesterday, leaving traders wary of putting on any significant shorts in the frontend.

Iron ore continues to climb in Singapore, with prices trading back above $140/t, although this is in the absence of China onshore traders during the Chinese New Year holidays.

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