The Commodities Feed: OPEC+ struggles to come to an agreement

Your daily roundup of commodity news and ING views

Energy

The oil market gave back all of its early gains yesterday, and ended up settling down on the day, with OPEC+ failing to come to an agreement on production levels for February. While most members appear to support the idea of rolling over the current level of cuts into February, Russia is wanting to ease cuts by a further 500Mbbls/d, which would take the total level of cuts for the group to 6.7MMbbls/d. Given that the group failed to come to an agreement yesterday, discussions will continue later today. Given the latest developments and concerns over Covid-19, we believe that the group should take a more prudent approach and maintain the current level of cuts. A further easing in cuts does leave some downside risk for the market, particularly in the current environment.

Moving onto market positioning, and delayed COT reports show little change in the speculative positioning over the last reporting week for both ICE Brent and NYMEX WTI. Speculators decreased their net long in ICE Brent by just 549 lots, leaving them with a net long of 280,298 lots as of last Tuesday, while for NYMEX WTI, speculators sold 2,861 lots to leave them with a net long of 333,784 lots.

Metals

The metals complex started the new year on a strong footing, driven by tailwinds from negative US real yields and a weaker dollar. Spot gold had a breakout, trading above US$1,900/oz for the first time since early November, reaching a high this morning of a little over US$1,945/oz. Similarly, spot silver prices have also strengthened, with prices hitting a high of US$27.56/oz yesterday. Meanwhile, platinum had a wild run yesterday, with spot prices hitting more than a four year high of US$1,132/oz, while the NYMEX April contract jumped by more than 5.6% to a high of US$1,142/oz. However, the market ended up giving back all of these gains later in the session. After a tumultuous year of disruptions for both platinum supply and demand, the net effect is that the market is expected to see another deficit over 2021. The World Platinum Investment Council expects that the global market will see a deficit of -224koz this year.

Turning to industrial metals, the weaker dollar has been a driving force behind the strength that we have seen across markets. LME nickel led the way, with the metal rallying more than 4%, and hitting an intraday high of US$17,520/t, after reports of an earthquake in Indonesia, raising supply concerns. This strength has continued in trading today.

Finally, turning to China, inventories of major industrial metals have started to build ahead of Chinese New Year. Total aluminium social inventories have gained 58kt since Christmas; while reportable refined zinc inventories at major cities increased by 7.5kt; although refined lead stocks were down slightly, by around 1kt. However, for now markets do not appear to be focusing on these stock builds, instead strong macro tailwinds remain the key driver.

Agriculture

Soybeans have continued their bull run, with the CBOT March contract trading well above US$13/bu, on the back of tightening supply prospects from Latin America, along with robust Chinese demand. Both Argentina and Brazil continue to witness dry and hot weather this year, which could impact the crop yield and production later in the year. The ongoing strike by the grains inspectors' union in Argentina combined with a weaker USD has also been supportive for soybean prices.

Turning to sugar and ICE No 11 sugar prices have been trading firm, with prices briefly trading above USc16/lb yesterday, levels last seen back in 2017. This strength comes despite latest data from the Indian Sugar Mills Association (ISMA) showing that India's sugar production increased 42% YoY to 11.05mt over the first three months of the season that started on 1 October. India is likely to see a strong sugar crop this year, on the back of larger acreage and improved yields. Indian sugar is likely to make its way onto the world market, given the domestic surplus, and thanks to the export subsidy announced by the government late last year.

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