

The Commodities Feed: OPEC+ struggling to reach a deal

Your daily roundup of commodity news and ING views



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Energy

Oil prices have been under a bit of pressure in morning trading in Asia, with it becoming clear that a rollover of current OPEC+ cuts is anything but certain. OPEC members failed to come to an agreement on delaying an easing in production cuts yesterday, and there are also reports that the OPEC+ meeting that was scheduled for today will now be delayed until Thursday, in the hope that members can come to some sort of agreement between now and then. Media reports also suggest that the Saudi energy minister has threatened to step down as chairman of the OPEC+ panel. Clearly failing to come to a deal at the end of this week will be bearish for the market, with a 3 month rollover of the current 7.7MMbbls/d cuts already largely priced in. We still believe that the group needs to extend the deal in order to ensure that the market continues to draw down inventories over the first quarter of next year, as vaccine developments are unlikely to significantly change the demand outlook in the next couple of months. As we have pointed out several times over the last month, the risk with the pre-OPEC+ meeting rally is that some members may become increasingly reluctant to rollover cuts, with them believing it is not necessary.

Finally, preliminary production numbers for OPEC are starting to come through and, according to a

Reuters survey, the group produced 25.31MMbbls/d, an increase of 750Mbbls/d MoM. The bulk of this increase came from Libya, whose output increased by almost 700Mbbls/d over the month, with output returning back to pre-export blockade levels. Meanwhile the UAE also saw output over the month increase by around 90Mbbls/d, but apparently still producing below its target under the OPEC+ deal.

Metals

Positive PMI data from China and a weaker dollar fueled the bullish move across the industrial metals complex yesterday. While investors are moving into riskier assets, precious metals continue to be liquidated, regardless of the tailwinds from a weaker dollar and US Treasury yields. A break below the 200 day moving average at the end of last week for gold has brought in a significant amount of selling. Meanwhile we have seen six days of consecutive declines in total known gold ETF holdings, with them falling by around 1.67moz over the period to total 107.7moz. Meanwhile the risk-on move has seen a sharp rally in the copper/gold ratio, with it increasing to around 4.2, levels last seen in July 2019.

Agriculture

CBOT wheat traded softer yesterday, dropping 2.7% to US\$5.8/bu on expectations of larger shipments from Australia and Russia. The Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES) has revised higher its wheat production forecasts by around 8% with the Bureau now forecasting wheat production of 31.2mt compared to its September forecast of 28.9mt. Favourable weather conditions and plenty of rainfall over the past few months has helped crop prospects in the country. Russia has also hinted at possibly easing planned exports curbs over the first half of 2021 on sufficient domestic supplies. Media reports suggest that Russia's Agriculture Ministry may propose to increase the export quota to 17.5mt from mid-February through June as compared to an earlier proposed quota of 15mt.

Finally, CFTC data shows that money managers increased bullish bets on corn and wheat over the last week while reducing their net long in CBOT soybeans. Managed money net longs in CBOT corn increased by 8,710 lots over the last week, leaving them with a net long of 287,599 lots as of 24 November. Stronger demand from China has buoyed sentiment. Meanwhile, money managers reduced their net long in CBOT soybean by 4,964 lots over the week, leaving them with a net long of 203,810 lots- the smallest position in over 10 weeks.

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