The Commodities Feed: OPEC+ week

Your daily roundup of commodities news and ING views

Energy

Having settled lower in the two previous weeks, last week ICE Brent managed to settle almost 12% higher, which took the market back above $120/bbl. The key driver behind this strength was uncertainty over whether the EU would take steps to ban Russian oil. Adding further strength to the market on Friday were reports of yet another attack by Iranian backed Houthi rebels on Saudi Arabia. A storage site in Jeddah was hit this time. This facility focuses on the domestic market rather than the export market.

However, the strength seen last week has not continued in trading this morning. The market has come under pressure with the latest Covid developments in China. Authorities have decided to impose a staggered lockdown in order to carry out mass testing. This action yet again highlights that China is not willing to drop its zero-covid policy and so continues to be a downside risk for the market.

The US appears less confident that we will see an Iranian nuclear anytime soon. Discussions have dragged on for a while. The latest obstacle is that Iran wants its Islamic Revolutionary Guards Corp to be taken off the US terrorist list. The attacks by Iranian backed Houthis on Saudi Arabia are unlikely to help matters. Therefore, it is looking less likely that Iran will be able to help partially offset Russian supply disruptions in the near term.

OPEC+ meet on Thursday. And this meeting has the potential to be the most interesting so far this year. The group will need to decide whether they will stick to their current plan of increasing output by 400Mbbls/d per month or be more aggressive with their production hikes. OPEC+ have had more time to assess the impact of the Russia-Ukraine war and so might feel more confident to take action. However, we are assuming that the group will stick to the current plan. Given that Russia is a member of OPEC+, they clearly have a say on what the group decides.

Turning to gas, and the US and EU reached a deal where the US would supply the bloc with at least an additional 15bcm of LNG this year. Although, given the strength in European prices, market forces would have likely ensured that this additional volume would have come to the EU anyway. Longer-term, the EU will work towards buying an additional 50bcm of US LNG per year through until at least 2030. If we see this commitment, it should attract further investment in US LNG export capacity, given that it is operating near capacity at the moment.

Metals

The nickel market witnessed another week of disarray, while liquidity remained thin across the base metals complex due to heightened volatility across commodities.

In the Chinese onshore market, copper and aluminium saw stock drawdowns. Covid outbreaks in multiple cities have put China's metal demand in check. Covid-containing measures have caused disruptions to the shipment of goods within the country, preventing metals from flowing into warehouses. There have also been reduced import flows resulting from the unfavourable arbitrage due to market dislocations between London and Shanghai. In addition, the disarray in the domestic scrap market due to tax policy changes has led to substitution from primary metal. This week, markets and investors will continue to monitor the Covid impact on metals supply and demand. Some cities are still ratcheting up restrictive measures to rein in the virus. On Sunday Shanghai imposed a staggered lockdown which will see non-essential businesses and transportation suspend operations.

In Europe, strong energy markets and raw material disruptions continue to pose a risk to primary aluminium supply, whilst in China, some disrupted smelting capacity has started to return to operation. China's Yunnan Shenhuo confirmed that it will restart operations on the back of an improved power supply. By the end of next month, it is expected to operate at its full capacity of 900kt.

As for copper, the local community in Peru lifted its blockade at MMG's Las Bambas copper mine after reaching an agreement with the management. Community members also lifted a blockade on Chinalco's mine.

Agriculture

India could plan to restrict sugar exports to around 8mt for the current marketing year that ends in September 2022 to keep domestic sugar prices under control. India has so far exported around 4.7mt of sugar until the end of February 2022 (+165% YoY), with another 1.8mt of sugar sales yet to be shipped. The country exported around 7mt of sugar in 2020/21 with the government providing export subsidies to sugar mills. However, for the current year, the government has avoided any subsidies so far as high prices have provided enough of an incentive for exports already. The proposed export quota is higher than the government's expectations of around 7.5mt of sugar exports for the current year and hence may not provide significant support to sugar prices in the immediate term.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Disclaimer