The Commodities Feed: OPEC+ worries

Your daily roundup of commodity news and ING views

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Energy

Oil has come under renewed pressure, with ICE Brent falling almost 1.4% lower on Friday, and the downward move has only picked up in pace in early trading this morning in Asia, with the market down a further 3% at the time of writing. One of the catalysts was a report from Dow Jones of a potential split within the OPEC+ alliance, with Saudi Arabia, UAE and Kuwait looking at a potential 300Mbbls/d of additional cuts if Russia is unwilling to participate in further cuts. However, since then, the Saudi energy minister has said that there is no truth behind these reports, and the group will continue to act in a collective manner. With less than 2 weeks to go to the OPEC+ meeting now, expect plenty of noise hitting the newswires around potential action from the group.

Another factor that has weighed on sentiment this morning is the pick-up in the number of Covid-19 cases outside of China. There was a dramatic increase in reported cases in South Korea over the weekend, whilst similarly, Italy has seen a spike in cases. Previously, most of the concern from the oil market was the impact Covid-19 would have on Chinese demand. But clearly, as we see more cases outside of China, this will start to raise concerns about demand in other countries and regions.

Finally, the latest numbers from Sublime China information show that run rates at independent refiners in the Shandong region fell from 47.82% to 41.84% over the week, which is the lowest runrate seen since 2015, highlighting the reduction in fuel consumption we are seeing from the country at the moment.

Metals

The number of new cases of Covid-19 outside of China in recent days has seen a continued move towards safe-haven assets, with spot gold now trading above US$1,660/oz, up around 5% over the last week, and trading at levels last seen back in early 2013. Gold ETF holdings have unsurprisingly increased by 469koz over the week, surpassing 84moz, and hitting record levels. The strength in gold comes despite the fact that we are also seeing USD strength, breaking the usual inverse relationship between the two.

Turning to base metals, SHFE stocks saw hefty increases as domestic demand for metals remained subdued. Copper stocks in SHFE warehouses increased by 35.9kt over the last week, with total stocks rising to near a two-year high of 298.6kt; SHFE copper inventories have nearly doubled over the past month. Downstream industry has been operating at reduced rates, which has seen smelters delivering into exchange warehouses. Meanwhile, SHFE aluminium and zinc stocks also increased by 70.8kt and 21.4kt respectively over the week pointing to a demand slowdown across the board for metals. The trend is likely to continue in the short-term as plant/business restarts in the country have been slow so far. Finally, data from the China Passenger Cars Association (CPCA) showed that passenger car sales were down 92% YoY over the first 16 days of February.

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