

The Commodities Feed: Russia discusses rolling over output cuts

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Energy

Oil managed to stage quite a recovery yesterday, with the market closing higher on the day after it was down more than 5% in early trading in Asia. Strength has continued in early morning trading today. The catalyst for the move was the Russian energy minister, who yesterday met with domestic oil companies to discuss the potential for rolling over current production cuts for an additional 3 months until the end of 1Q21. In the past, Russia has been the stumbling block when it has come to extending or deepening cuts, and so the market will take comfort in knowing that they are looking into the potential of rolling over current cuts. Obviously, we will need to wait for the OPEC+ meeting on the 30 November and 1 December to see what decision the group makes, but an extension should ensure that the oil market continues to draw down oil inventories over 1Q21.

A Bloomberg survey shows that OPEC production increased by 470Mbbls/d over October, with output averaging 24.74MMbbls/d over the month. The increase was predominantly driven by Libya, where output increased by 300Mbbls/d, and this follows the lifting of *force majeure* at a number of oil facilities. Iraqi output is estimated to have increased by 160Mbbls/d to average 3.87MMbbls/d, which is above their quota of around 3.8MMbbls/d.

There is little in the way of oil specific releases today. We have the usual API report, and expectations are that US crude oil inventories increased in the region of 1.2MMbbls last week. However, this inventory report will likely be overshadowed by the US election. A potential Biden victory, as polls suggest, could put some pressure on oil prices, as it is expected that a Biden administration might take a softer approach towards Iran.

Metals

According to a report from the South China Morning Post, China is preparing to ban the import of several agriculture products and copper from Australia, amid rising tensions between the two nations. China imported a total of 1.05mt of copper concentrate from Australia last year, which equated to 4.78% of its total copper concentrate imports. For the current year, the latest data show that imports totalled 696kt in the first nine months of the year, accounting for 4.25%. Such a move, if it were rolled out, could add to the tightness of concentrate supply in China. Meanwhile, the industry had worried that iron ore could be targeted if tensions continue to grow, but the dependency on iron ore is far higher than it is for copper.

China revealed its plan on new energy vehicles (2021-2035) yesterday, which notes that it will boost market penetration of new energy vehicles (NEVs) to 20% by 2025. Copper will benefit from the higher demand intensity in NEVs, as well as from increased construction of power infrastructure for chargers. Meanwhile, following President Xi Jinping's pledge from several weeks ago that China will be carbon neutral by 2060, both Japan and South Korea have also announced to be carbon neutral by 2050. In order to meet such targets, we would clearly need to see heavy investment in the renewable energy sector, which would be beneficial for metals demand.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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