

The Commodities Feed: Saudi Arabia makes a surprise cut

Your daily roundup of commodity news and ING views



Energy

The Saudis caught the market off guard at the OPEC+ meeting yesterday, announcing that the Kingdom would make further voluntary cuts of 1MMbbls/d over February and March. The announcement saw ICE Brent and NYMEX WTI rallying by around 5%, and oil markets have continued to trend higher this morning. This sizeable output cut should provide the support the market needs amid Covid-19 uncertainties over 1Q21. Meanwhile Russia, who was keen to ease output cuts was, along with Kazakhstan, allowed to increase output by a combined 75Mbbls/d in February, and then a further 75Mbbls/d in March. As for the rest of the members, they will keep their output levels unchanged for the remainder of the first quarter. Therefore, over February and March, OPEC+ will be cutting by 8.125MMbbls/d and 8.05MMbbls/d respectively, and this is larger than the current 7.2MMbbls/d cut they are making this month.

The surprise cut from Saudi Arabia is constructive for oil, as it should ensure that the market continues to draw down inventories over 1Q20, despite worries over demand with a number of new lockdowns or the extension of existing lockdowns announced.

Moving on, and the API reported that US crude oil inventories declined by 1.66MMbbls over the last

week, which is a bit less than what the market was expecting. Meanwhile on the product side, big builds were reported, with gasoline and distillate fuel oil inventories growing by 5.47MMbbls and 7.14MMbbls respectively. The more widely followed EIA report will be released later today, and if we see a number similar to the API this could put some pressure on refined product cracks.

Metals

The mood remained upbeat across the metals complex. Tailwinds from a softer dollar overshadowed concerns about rising Covid-19 infections and stricter lockdowns in major economies. LME copper (3M contract) managed to close above US\$8,002/tonne, and the red metal was given a boost from reports that the Peruvian based Las Bambas mine is set to halt operations due to community protests.

According to the latest data from the Peruvian mining ministry, copper mine production fell by 2.4% YoY to 206.3kt in November. Total production in the first eleven months of 2020 fell by 14% YoY to 1.9mt. November zinc mine production slipped from its October peak, falling 3.5% YoY to 137.2kt, taking total production over the first eleven months of 2020 to 1.2mt, down 7.4% YoY.

Turning to Chile, the world largest copper mine producer, Codelco produced 166.1kt of copper in November (the highest monthly production seen in 2020) according to latest data from Cochilco; meanwhile, Escondida production fell slightly to 90.8kt in the month. Total copper mine production from Chile fell 3% YoY to 485.1kt in November.

Looking at precious metals, the complex extended gains yesterday, with spot gold prices rising for a fifth straight session and moving above US\$1,950/oz, driven by falling real yields and rejuvenated safe-haven demand as we see a rise in Covid-19 cases. However, higher prices have also severely impacted consumer demand in one of the largest Asian consuming nations. Gold imports into India slumped to 275.5t (lowest since 2009) in 2020 due to poor demand, disrupted logistics and higher domestic prices. Monthly imports rose 18% YoY to 55.4t in December 2020.

Agriculture

Latest trade data from Brazil shows that soybean exports from the country dropped to 274kt in December (the lowest monthly exports in over five years) compared to 3.27mt a year ago, as the majority of the current crop has already been shipped. Shipments could remain slow in January as well, with exports likely to pick up in February and March when new crop supply comes onto the market. Lower shipments from Brazil have helped tighten the physical market for soybean; although higher shipments from the US has eased this tightness to some extent.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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