The Commodities Feed: Saudi output boost

Your daily roundup of commodity news and ING views

Source: iStock

Energy

The Saudis have already boosted production, with media reports suggesting that oil output in the Kingdom now exceeds 12MMbbls/d - just one day into the new quarter. This is a clear sign that the Saudis are not ready to back off in the price war, despite the Russians now saying that they will not increase output given the current oversupply in the market. The fact that Russia is holding off from increasing production could be seen as a positive development, as it increases the likelihood that they would be willing to resume discussions with the Saudis. Fundamentally though, it does not change much for now, given that Russia would likely have only increased output in the region of 200-300Mbbls/d. So this additional supply not coming to the market will do little to dent the scale of the surplus over 2Q20.

OPEC production estimates for March show that output over the month increased by 150Mbbls/d to average 28.06MMbbls/d according to Bloomberg numbers - the first monthly increase in the group's output since October 2019. Unsurprisingly, given the failed OPEC+ meeting in March, Saudi Arabia increased output in the month by 290Mbbls/d, taking output to a little over 10MMbbls/d.

The EIA reported yesterday that US crude oil inventories increased by 13.83MMbbls over the last week- an increase that was last seen back in early 2017, and significantly larger than the 3.3MMbbls build the market was expecting. Meanwhile gasoline inventories unsurprisingly also saw a large increase, growing by 7.52MMbbls. All the reports of refinery run cuts are also starting to be reflected in EIA numbers, with refinery utilisation falling by 5 percentage points over the week to just 82.3% - the lowest levels seen since 2017, when the refining industry in the US Gulf was hit by Hurricane Harvey.

Finally, Bloomberg reports that Indian Oil Corp has declared force majeure on a number of April cargoes from the Middle East. Indian Oil Corp wants to defer a number of these cargoes. India, which is the world's third-largest crude oil importer, has seen domestic demand plunge as a result of the countrywide shutdown.

Metals

Base metal prices took a knock yesterday as sentiment turned pessimistic once again after the US warned of a worsening in the Covid-19 outlook. Copper led the declines, settling more than 3% lower on the LME, while zinc, lead and aluminium followed closely behind. In fact, aluminium broke a key level, sinking below USD1,500/tonne, and touching a four-year low.

A key question remains as to whether there will be supply rationing, and how soon? An assumption is that prices need to stay lower and maybe for longer, in order to remove some supply from the market. Based on current market prices, around half of all aluminium smelters are running cash-negative. But the high costs involved in closing and restarting a primary smelter means that the supply response is fairly inelastic. As we discussed here, the metals market is on a bumpy-road as it continues to assess the severity of Covid-19 and its impact on both supply and demand. In the meantime, a volatile USD is only likely to add further volatility to metal prices in the near term.

Bloomberg reports that the Japanese physical premium for aluminium has dropped further to US$82/t for 2Q20 deliveries, the lowest levels in three years as demand dries up. The automobile sector is one of the worst affected sectors globally due to the virus pandemic and demand uncertainty from this industry has weighed heavily on the aluminium demand outlook. For copper, Indonesia has increased the export permit for Freeport's Grasberg mine to 1.07mt for the next year (up 43% YoY), as the mine ramps up underground operations. Some other Asian producers have also provided guidance to increase copper and other metals output over the next two quarters; though much depends on how the Covid-19 situation evolves.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**24.74**	8.80	-62.52
NYMEX WTI (US$/bbl)	**20.31**	-0.83	-66.74
ICE Gasoil (US$/t)	**272**	-7.17	-55.74
NYMEX HO (Usc/g)	**93**	-7.88	-54.04
Eurobob (US$/t)	**148**	-44.93	-74.32
NYMEX RBOB (Usc/g)	**55**	-4.66	-67.81
NYMEX NG (US$/mmbtu)	**1.59**	-3.23	-27.50
TTF Natural Gas (EUR/MWh)	**6.82**	-1.13	-43.37
API2 Coal (US$/t)	**49**	-2.49	-10.93
Newcastle Coal (US$/t)	**66**	-1.34	-4.13
SGX TSI Coking Coal (US$/t)	**139**	-3.40	-1.55
SGX Iron Ore 62% (US$/t)	**78.58**	-3.87	-13.95

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,591.5**	0.91	4.89
Spot Silver (US$/oz)	**14.0**	-0.08	-21.79
LME Copper (US$/t)	**4,800**	-3.05	-22.25
LME Aluminium (US$/t)	**1,500**	-1.74	-17.15
LME Zinc (US$/t)	**1,871**	-1.84	-17.67
LME Nickel (US$/t)	**11,261**	-1.94	-19.71
CBOT Corn (Usc/bu)	**335**	-1.76	-13.67
CBOT Wheat (Usc/bu)	**550**	-3.25	-1.52
CBOT Soybeans (Usc/bu)	**863**	-2.62	-8.51
ICE No.11 Sugar (Usc/lb)	**10.04**	-3.65	-25.19
ICE Arabica (USc/lb)	**116**	-2.97	-10.56
ICE London Cocoa (GBP/t)	**1,740**	-0.80	-4.34

Source: Bloomberg, ING Research

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