

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 200-300Mbbbls/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 150Mbbbls/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 290Mbbbls/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		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	24.74	8.80	-62.52			Spot Gold (US\$/oz)	1,591.5	0.91	4.89		
NYMEX WTI (US\$/bbl)	20.31	-0.83	-66.74			Spot Silver (US\$/oz)	14.0	-0.08	-21.79		
ICE Gasoil (US\$/t)	272	-7.17	-55.74			LME Copper (US\$/t)	4,800	-3.05	-22.25		
NYMEX HO (US\$/g)	93	-7.88	-54.04			LME Aluminium (US\$/t)	1,500	-1.74	-17.15		
Eurobob (US\$/t)	148	-44.93	-74.32			LME Zinc (US\$/t)	1,871	-1.84	-17.67		
NYMEX RBOB (US\$/g)	55	-4.66	-67.81			LME Nickel (US\$/t)	11,261	-1.94	-19.71		
NYMEX NG (US\$/mmbtu)	1.59	-3.23	-27.50								
TTF Natural Gas (EUR/MWh)	6.82	-1.13	-43.37			CBOT Corn (USc/bu)	335	-1.76	-13.67		
						CBOT Wheat (USc/bu)	550	-3.25	-1.52		
API2 Coal (US\$/t)	49	-2.49	-10.93			CBOT Soybeans (USc/bu)	863	-2.62	-8.51		
Newcastle Coal (US\$/t)	66	-1.34	-4.13			ICE No.11 Sugar (USc/lb)	10.04	-3.65	-25.19		
SGX TSI Coking Coal (US\$/t)	139	-3.40	-1.55			ICE Arabica (USc/lb)	116	-2.97	-10.56		
SGX Iron Ore 62% (US\$/t)	78.58	-3.87	-13.95			ICE London Cocoa (GBP/t)	1,740	-0.80	-4.34		

Source: Bloomberg, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.