

The Commodities Feed: Saudis set to cut output early

Your daily roundup of commodity news and ING views



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Energy

It's a fairly quiet week for the oil market in terms of data releases, although what this week does finally bring is the start of OPEC+ production cuts on Friday. As we have mentioned in previous notes, a number of OPEC+ members have decided to start cutting output early given the state of the market. Over the weekend, there were media reports that Saudi Arabia would also start reducing output early. Under the deal, the Kingdom is set to reduce production to 8.5m b/d, a significant reduction from the more than 12m b/d they are expected to have produced over much of April. While bringing forward cuts by a handful of producers is helpful, it will have little impact on the oil balance in the short term.

Moving to the US, and the slide in active oil rigs continues amid the weak price environment. Baker Hughes reported on Friday that the rig count in the US fell by 60, taking the total number to just 378, and falling quickly towards the lows seen in 2016. Since mid-March, the number of active oil rigs in the US has fallen by around 45% - a clear signal that output is heading lower in the coming months.

Finally, turning to China, and we continue to see positive signs on the demand front, with refinery activity at independent refiners in the Shandong region hitting record levels. The latest data from SC199 show that utilisation rates last week rose to 72.67, while only up 0.71 percentage points WoW, the recovery since late February, when utilisation rates were below 42% has been impressive.

Metals

Over the weekend, the provincial government of Yunnan in China said it would launch an 800kt metal stockpiling plan, which would include copper, aluminium, lead, zinc, tin, germanium and indium. The government will set aside CNY 1 billion worth of funds for the program, which would cover part of the interest payments to incentivise stockpiling for one year. The move would help remove excess supply from the market, during a year when demand is set to decline. The funds will be used to cover up to 60% of the interest on loans to buy copper, aluminium, lead and zinc.

Despite this action, demand indicators in the domestic metals market have been positive. Domestic demand has bounced back, driven by a recovery in downstream sectors, including construction. For copper and aluminium, reduced scrap supply has also supported primary metal demand. Meanwhile, last week, aluminium inventories saw the largest weekly drawdown on record, falling by 136kt. By the end of last week, social inventory was reported at 1.359 mln tonnes according to SMM. However, a major risk facing aluminium demand is the export market for the metal's semis and finished products.

Despite short term positive momentum from China, macro headwinds remain a major concern. A strong dollar still caps the upside for the metals complex. There will be several major economic data releases this week, including US quarterly GDP data on Wednesday as well as the FOMC decision on Thursday.

Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	21.44	0.52	-67.52			Spot Gold (US\$/oz)	1,729.6	-0.05	13.99		
NYMEX WTI (US\$/bbl)	16.94	2.67	-71.50			Spot Silver (US\$/oz)	15.3	-0.01	-14.56		
ICE Gasoil (US\$/t)	205	-9.99	-66.61			LME Copper (US\$/t)	5,140	-0.41	-16.76		
NYMEX HO (Usc/g)	65	-11.95	-68.12			LME Aluminium (US\$/t)	1,514	0.26	-16.35		
Eurobob (US\$/t)	163	1.75	-71.80			LME Zinc (US\$/t)	1,883	0.56	-17.12		
NYMEX RBOB (Usc/g)	66	2.73	-61.06			LME Nickel (US\$/t)	12,246	0.63	-12.68		
NYMEX NG (US\$/mmbtu)	1.75	-3.80	-20.24			CBOT Corn (Usc/bu)	316	-1.10	-18.57		
TTF Natural Gas (EUR/MWh)	5.77	-4.74	-52.12			CBOT Wheat (Usc/bu)	527	-3.70	-5.73		
API2 Coal (US\$/t)	43	-1.82	-23.67			CBOT Soybeans (Usc/bu)	832	-0.83	-11.74		
Newcastle Coal (US\$/t)	53	0.96	-23.90			ICE No.11 Sugar (Usc/lb)	9.73	-1.12	-27.50		
SGX TSI Coking Coal (US\$/t)	112	-4.53	-20.93			ICE Arabica (Usc/lb)	105	-5.27	-18.89		
SGX Iron Ore 62% (US\$/t)	81.35	-0.18	-10.92			ICE London Cocoa (GBP/t)	1,990	-0.20	9.40		

Source: Bloomberg, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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