

The Commodities Feed: The Saudis cut more

Your daily roundup of commodity news and ING views



Energy

The big news yesterday was the announcement that Saudi Arabia would cut output in June by an additional 1MMbbls/d, which would take output in the month to around 7.5MMbbls/d, the lowest levels seen in almost 20 years. The rationale behind the extra cut was to speed up the return to normality for oil markets. Although interestingly, the announcement follows a phone call between President Trump and the King of Saudi Arabia. The market reacted as one would expect, at least initially, with Brent rallying around 5%. However, as the market digested the news, this strength fizzled out, and the market settled lower for the day. The bears would say the fact that Saudi Arabia has to cut by an additional 1MMbbls/d, suggests that the demand is not there, with them unlikely to take such action if it was.

Following the announcement from Saudi Arabia, the UAE and Kuwait announced that they would also cut by an additional 100Mbbls/d and 80Mbbls/d respectively over June. We will need to see how individual compliance performs under the broader OPEC+ deal, because that would tell us if we are seeing real additional cuts from the OPEC+ group, or whether these recently announced cuts will just make up for poor performance from other producers. Iraq's track record with compliance has been poor in recent years, and under the deal that started on 1 May, they need to

cut output by 1MMbbls/d, something that many in the market believe they will not achieve.

Finally, there are plenty of data releases this week. Apart from the usual weekly reports, we are set to see the EIA release its Short Term Energy Outlook today, and it will be interesting to see what revisions they make to their US oil output forecasts, given the collapse in drilling activity and numerous production shut in announcements from US producers in recent weeks. Then on Wednesday, OPEC will release its monthly report, where the market will be interested in their latest thoughts on demand. Finally, on Thursday the IEA will release its monthly report, and once again the key focus will likely be on their demand expectations for the remainder of the year.

Metals

Base metals remain fairly well supported, with LME copper reaching an intraday high of US\$5,370/t. Comments from China's central bank, signalling further monetary stimulus, proved supportive, while data on money supply including new yuan loans was better than the market expected.

According to the latest supply data from SMM, China's copper cathode production rose 6.5% YoY and 1.2% MoM to total 752kt in April, following the ramp up of new capacity and the resumption of operations at other smelters. The strong year-on-year growth is also due to a low base, with some smelters carrying out scheduled maintenance during the same period last year. Among all metals, LME lead remained the best performer, with prices rising almost 1.7% yesterday, supported by LME data which showed a sharp jump in cancelled warrants; rising by 14kt (highest since mid-June) to 17kt as of yesterday. Meanwhile, LME lead stocks remain almost flat at around 74kt, but the sudden rise in cancelled warrants may result in declining inventories in the coming days.

Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	29.63	-4.33	-55.11			Spot Gold (US\$/oz)	1,697.9	-0.28	11.91		
NYMEX WTI (US\$/bbl)	24.14	-2.43	-60.47			Spot Silver (US\$/oz)	15.5	0.06	-13.23		
ICE Gasoil (US\$/t)	240	-0.93	-60.91			LME Copper (US\$/t)	5,257	N/A	-14.85		
NYMEX HO (Usc/g)	87	-3.40	-57.17			LME Aluminium (US\$/t)	1,498	N/A	-17.27		
Eurobob (US\$/t)	238	-2.02	-58.85			LME Zinc (US\$/t)	2,029	N/A	-10.72		
NYMEX RBOB (Usc/g)	92	-2.94	-45.56			LME Nickel (US\$/t)	12,354	N/A	-11.91		
NYMEX NG (US\$/mmbtu)	1.83	0.16	-16.58								
TTF Natural Gas (EUR/MWh)	5.71	-2.13	-52.64			CBOT Corn (Usc/bu)	319	-0.16	-17.86		
API2 Coal (US\$/t)	50	0.80	-17.41			CBOT Wheat (Usc/bu)	525	-0.90	-6.09		
Newcastle Coal (US\$/t)	53	0.85	-22.74			CBOT Soybeans (Usc/bu)	852	0.41	-9.62		
SGX TSI Coking Coal (US\$/t)	117	0.00	-17.31			ICE No.11 Sugar (Usc/lb)	10.12	-1.65	-24.59		
SGX Iron Ore 62% (US\$/t)	85.27	-0.40	-6.63			ICE Arabica (Usc/lb)	109	-1.04	-16.00		
						ICE London Cocoa (GBP/t)	2,037	1.29	11.98		

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 <http://www.ing.com>.