The Commodities Feed: Trump's hope for output cuts

Your daily roundup of commodity news and ING views

Energy

Oil markets got a boost higher yesterday, with ICE Brent settling 21% higher on the day, to close just shy of US$30/bbl. The catalyst for the move was a tweet from President Trump, suggesting that Saudi Arabia and Russia would agree on at least a 10MMbbls/d output cut. However it appears that the Russians have not spoken to the Saudis about a production cut, whilst the most we have heard from the Saudis is a call for an urgent OPEC+ meeting. It is difficult to see the current OPEC+ group cutting output by at least 10MMbbls/d - the scale of the reduction would be just too much for the group to handle. Therefore, if a deal is to materialise, and one of this size, it would require the involvement of further producers. This would include countries like Canada, Brazil and in particular the US. This is where it becomes more difficult, as getting the US oil industry to agree on production quotas will be a tough ask, and is also unlikely to gel with US antitrust legislation.

If we were to assume that producers were able to agree on an output cut of 10MMbbls/d, the next big question is would that be enough? As we see country lockdowns widened and extended, this will only weigh further on demand as we move through the second quarter. So while 10MMbbls/d might do a good job to take a sizeable amount of the surplus off the market, it does not necessarily solve the surplus in the market in the coming months.

Finally moving on from potential cuts, the other positive development for the market yesterday was the announcement that China would take advantage of the low price environment to build reserves. Unlike the US, where the the amount of reserves held, along with capacity is clear, for China reserve numbers are shrouded in secrecy, and so at this stage it is difficult to judge just how much Chinese buying we could see.

Metals

Safe-haven appeal continues to see investors piling into gold ETFs, with total holdings now standing at a record 90.85moz. This is no surprise when you consider that global Covid-19 confirmed cases have surpassed the 1 million mark, while the latest economic data out of the US continue to disappoint, with unemployment claims increasing to 6.65m last week, showing the acute stress on the economy. In the physical market, investors have started buying bars and coins, and this is evident when looking at the latest data from the US Mint, which shows the biggest monthly jump in demand since late 2016. Meanwhile there has been concern over gold supply in the last few weeks, after three refiners in Switzerland suspended operations, however Bloomberg reports that these refiners are in talks with authorities in order to restart next week.

Market attention in the copper market appears to be focused on rising mine supply risks. LME copper settled more than 2% higher on the day, after Chile's second-largest mine, Collahuasi said they had to send 40% of their workers home after positive Covid-19 cases were identified amongst staff. Although the company did say that the remaining workers will be focusing on production. We are likely to continue hearing about production disruptions in the metals industry over the next couple of weeks, and over that time the full impact should become clearer. However at the same time, investors will be balancing this with any evidence of demand destruction.

After staying relatively isolated from the COVID-19 pandemic over the past three months, Met coal has started to react, with Australian spot coking coal prices falling more than 10% over the past two days as availability of spot cargoes increases. Lower capacity utilization at steel mills in the US and Europe has pushed many Canadian and Russian term cargoes into the Asian spot market. The return of Chinese steel mills will help stabilise demand to a certain extent; however trade restrictions and slowdown in final consumer demand could keep the coking coal market in surplus for now.

Daily price update

	Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**29.94**	21.02	-54.64
NYMEX WTI (US$/bbl)	**25.32**	24.67	-58.53
ICE Gasoil (US$/t)	**276**	1.56	-55.05
NYMEX HO (Usc/g)	**100**	6.74	-50.94
Eurobob (US$/t)	**185**	25.08	-67.88
NYMEX RBOB (Usc/g)	**66**	21.28	-60.96
NYMEX NG (US$/mmbtu)	**1.55**	-2.21	-29.10
TTF Natural Gas (EUR/MWh)	**6.94**	1.63	-42.45
API2 Coal (US$/t)	**47**	-1.35	-13.02
Newcastle Coal (US$/t)	**64**	-2.95	-6.95
SGX TSI Coking Coal (US$/t)	**136**	-2.03	-3.55
SGX Iron Ore 62% (US$/t)	**79.65**	1.36	-12.78

	Current	% DoD ch	%YTD ch
Spot Gold (US$/oz)	**1,614.0**	1.41	6.37
Spot Silver (US$/oz)	**14.5**	3.77	-18.84
LME Copper (US$/t)	**4,897**	2.02	-20.68
LME Aluminium (US$/t)	**1,491**	-0.57	-17.62
LME Zinc (US$/t)	**1,888**	0.91	-16.92
LME Nickel (US$/t)	**11,313**	0.46	-19.34
CBOT Corn (Usc/bu)	**334**	-0.37	-13.99
CBOT Wheat (Usc/bu)	**542**	-1.54	-3.04
CBOT Soybeans (Usc/bu)	**859**	-0.46	-8.93
ICE No.11 Sugar (Usc/lb)	**10.29**	2.49	-23.32
ICE Arabica (USc/lb)	**119**	2.89	-7.98
ICE London Cocoa (GBP/t)	**1,768**	1.61	-2.80

Source: Bloomberg, ING Research

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