The Commodities Feed: US output set to plunge

Your daily roundup of commodity news and ING views

Source: iStock

Energy

US oil output is set to fall, although these declines reflect the market doing its job, rather than any potential mandated cuts. The current low price environment is just too low for US producers, and this is highlighted in the significant slowdown in drilling activity we have seen over the past three weeks. The EIA in its latest Short Term Energy Outlook is now forecasting that US oil output in 2020 will decline by 470Mbbls/d YoY, compared to a previous forecast of 770Mbbls/d growth. For 2021, the EIA forecast that US production will decline by a further 730Mbbls/d, compared to a previous forecast for a decline of 340Mbbls/d.

The big question is whether the likes of Russia will accept a cut from the US in this form rather than a mandated cut. If so, this would mean that US cuts would only feed through into the market gradually, and for now, it does seem as though this would be the only type of reduction the US would be willing to accept. Mandated cuts would likely mean no deal. Ahead of tomorrow's OPEC+ meeting, there are media reports that one of the considerations for OPEC is a cut of 10MMbbls/d through until the end of the year, while OPEC is estimating that demand falls by 11.9MMbbls/d over 2Q20, according to the same reports.

Finally, the API reported yesterday that US crude oil inventories increased by 11.9MMbbls over the last week which is not too surprising given the cuts in refinery run rates we have seen as a result of weak product demand. The API also reported that Cushing stocks increased by 6.8MMbbls, whilst gasoline inventories grew by 9.45MMbbls. The more widely followed EIA numbers will be released later today, but the numbers may not get as much attention as usual given the increased amount of OPEC+ noise.

Metals

The buying streak in industrial metals continued yesterday, with market sentiment continuing to improve with rising hopes over the containment of Covid-19. LME copper prices surged over US$5000/t yesterday for the first time in three weeks, as constant Covid-19 related mine suspensions provide a cushion to metal prices. Recently, Panama ordered one of its largest copper producers, Minera Panama, to suspend operations temporarily after 11 workers tested positive for Covid-19. The mine is estimated to have produced 140-175kt of copper in 2019. Over the coming years, the mine is projected to produce over 300kt of copper. Meanwhile, Glencore is set to suspend mining operations at its Mopani copper mine from 8th April for three months.

In precious metals, the spread between COMEX gold futures and London spot gold once again jumped to US$50 yesterday after testing historical highs of US$70 on 24th March, when the market expected a shortage of gold bars in New York due to the suspension of some gold refineries and logistical disruptions. However, the situation was expected to normalise following the partial restart of refineries. Clearly investors are still concerned about supply logistics.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US$/bbl)	**31.87**	-3.57	-51.71	Spot Gold (US$/oz)	**1,647.7**	-0.80	8.60
NYMEX WTI (US$/bbl)	**23.63**	-9.39	-61.30	Spot Silver (US$/oz)	**15.0**	0.11	-15.86
ICE Gasoil (US$/t)	**298**	1.45	-51.47	LME Copper (US$/t)	**5,040**	3.19	-18.37
NYMEX HO (Usc/g)	**103**	-1.74	-49.34	LME Aluminium (US$/t)	**1,478**	0.37	-18.37
Eurobob (US$/t)	**178**	-9.27	-69.18	LME Zinc (US$/t)	**1,924**	1.02	-15.32
NYMEX RBOB (Usc/g)	**65**	-7.61	-61.82	LME Nickel (US$/t)	**11,471**	1.61	-18.21
NYMEX NG (US$/mmbtu)	**1.85**	6.99	-15.40				
TTF Natural Gas (EUR/MWh)	**7.28**	-0.05	-39.57	CBOT Corn (Usc/bu)	**332**	1.14	-14.51
				CBOT Wheat (Usc/bu)	**549**	-1.17	-1.70
API2 Coal (US$/t)	**49**	2.60	-12.99	CBOT Soybeans (Usc/bu)	**855**	-0.09	-9.36
Newcastle Coal (US$/t)	**62**	-0.97	-10.93	ICE No.11 Sugar (Usc/lb)	**10.38**	-0.67	-22.65
SGX TSI Coking Coal (US$/t)	**128**	-0.68	-9.43	ICE Arabica (USc/lb)	**120**	2.79	-7.56
SGX Iron Ore 62% (US$/t)	**79.18**	-0.86	-13.29	ICE London Cocoa (GBP/t)	**1,906**	0.53	4.78

Source: Bloomberg, ING Research

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