The Commodities Feed: What will OPEC+ do?

Your daily roundup of commodity news and ING views

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Energy

Looking at the price action in oil yesterday, one wouldn't think that we saw the largest US crude oil build on record, with stocks increasing by almost 21.6MMbbls over the last week. However, offsetting this large build were significant draw downs in refined product stocks, with the effects of the freezing cold weather conditions that we saw across the US Gulf Coast in February still coming through in the data. Crude oil production is estimated to have started to make a recovery, with it increasing by 500Mbbls/d over the week, whilst similarly crude oil imports increased by almost 1.7MMbbls/d. Refiners as expected are taking longer to get back online, and in fact refinery utilisation fell by 12.6 percentage points to just 56% over the week, the lowest utilisation rate on record, going as far back as 1980. As a result, crude oil inputs fell by more than 2.3MMbbls/d over the week, whilst the lower throughput did obviously have an impact on the refined product markets. Gasoline and distillate fuel oil inventories declined by 13.62MMbbls and 9.72MMbbls respectively, and it is these large product draws which have offered support to the market.

Further support for the market probably came from a Reuters report that suggested that OPEC+ may decide to rollover current output levels into April when they meet later today. This would be somewhat of a surprise to the market, with expectations that the group would ease by 500Mbbls/d, along with Saudi Arabia ending its additional voluntary cuts of 1MMbbls/d. We believe that the market would be able to easily absorb this additional supply from April onwards. In fact the market would likely be able to manage even further easing, but it probably wouldn't be wise of OPEC+ to ease much more than the market is expecting, given the potential price impact of doing so.

Metals

Another tantrum in the bond market spread jitters across the metals complex yesterday. LME nickel fell more than 7.5% to an intraday low of US$17,220/t (the lowest since 12 January). Expectations of tightness in nickel mine supply and class 1 nickel have taken a backseat following two developments on the supply side. Firstly, Russian producer, Norilsk Nickel reported progress in resuming operations at a suspended mine by next week. Nornickel partially suspended output at its Oktyabrsky mine and the interconnected Taimyrsky operations last week after water inflows. However, management has said it plans to stabilize water inflows and resume operations by 9th March. Prior to this, the mine also struggled when an ore loading roof collapsed during repairs. Secondly, China's Tsingshan Holdings Group Co. agreed to supply nickel matte for electric-car batteries to Huayou Cobalt Co. and CNGR Advanced Material Co. The company expects nickel output to reach 600kt in metal equivalent this year, 850kt next year and 1.1mt by 2023.

Turning to steel, the latest update suggests that China is again tightening output curbs in its key steelmaking regions. Tangshan, a major steel producing hub in Hebei province, ordered limits on iron ore processing and the closure of more steel furnaces to combat heavy air pollution. In total, sintering units across six areas in Tangshan were ordered to close or reduce their operations starting from Tuesday to Friday. It is also expected that the local government might implement strict emission controls on 100 major companies in the city by the end of this month. This week, China's top policymakers will meet to discuss the best possible plan to achieve the nation's decarbonization goals, which might result in tightening steel supply further. Steel futures in China reached their highest level since 2011 yesterday, with steel output restrictions giving an extra boost to an already bullish market.

Finally, spot gold saw further declines with prices reaching the intraday lows of US$1,702/oz (lowest since 10th June) yesterday. Rising US Treasury yields and strength in the USD index continue to weigh on the yellow metal. Meanwhile, investors continue to exit the ETF market. Total known ETF holdings for gold marked its 13th straight day of declines, the longest continuous daily outflows recorded since December 2016. Net outflows of 395koz were reported on Wednesday, taking holdings to 103.2moz; the lowest since early July last year.

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