

The Commodities Feed: Further downside to oil

Your daily roundup of commodity news and ING views



Source: iStock

Energy

The downward pressure on the oil market this morning shouldn't come as too much of a surprise, with ICE Brent down more than 25% at the time of writing, trading below US\$34/bbl. This obviously comes after the breakdown of talks between OPEC+ on Friday, with Russia not willing to make deeper cuts. This means that the OPEC+ deal expires at the end of March, and members are free to pump as much oil as they want from 1 April. This clearly is the start of a price war, and the Saudis were quick to react over the weekend, reducing their April official selling price for crude oil significantly. Arab Light going into Asia was reduced by US\$6/bbl MoM to a discount of US\$3.10/bbl. Meanwhile the reductions into Europe were even larger.

Given the breakdown in talks and the scale of the surplus over 2Q20, [we have slashed our oil price forecasts significantly over the weekend](#) and now forecast ICE Brent to average US\$33/bbl over the second quarter. We would expect the market to test the lows seen in early 2016. Meanwhile uncertainty over the demand picture, as the Covid-19 virus spreads, only adds further downside risk.

Low prices will put pressure on producers around the world, but clearly the target is the US shale industry, with the low price environment meaning downside risk to US output later in the year and as we move into 2021. However last time this strategy was used, the US shale industry bounced back even stronger and more efficient. The key question is, will it be different this time around?

Turning to market positioning, and the latest Commitment of Traders report showed that speculators reduced their net long in ICE Brent by 60,290 lots to leave them with a net long of 227,785 lots as of last Tuesday - levels last seen in October last year. However, given the selloff we have seen in the market since last Tuesday, current positioning is likely to be very much lower than these numbers suggest.

Metals

Gold has continued its ascent, with prices pushing closer to the US\$1,700 oz level. The move towards safe-haven assets has supported the yellow metal, whilst US Treasury yields continue to fall.

Moving to Platinum Group Metals (PGMs), and Anglo American Platinum reduced its PGM output forecasts and declared force majeure after an explosion last month at a converter plant at its Rustenburg smelter in South Africa. The company reduced its 2020 production guidance for platinum to 1.5-1.7moz compared to a prior estimate of 2-2.2moz. Meanwhile, expectations for palladium have been revised down from 1.4-1.5moz to 1.1-1.2moz.

Base metals continue to come under pressure with a risk-off attitude across markets. Furthermore, the consistent rise in Chinese metal inventories and slow recovery in downstream demand only adds further pressure. The latest data from the Shanghai Futures Exchange (SHFE) showed that copper stocks in exchange warehouses increased by 34kt over the last week, with total inventories reaching 345kt - the highest level since April 2016. YTD inflows for copper now total 204kt versus 127kt over the same period last year. Meanwhile, SHFE aluminium stocks saw an increase of 40kt over the week to total 479kt (the highest since May), whilst SHFE zinc stocks grew marginally by 2kt to 162kt.

Meanwhile, SMM released its metal output survey last week, which showed that output levels for base metals dropped in February, in line with market expectations. Copper cathode output dropped 6% MoM to 683kt in February, as smelters trimmed output on the back of rising inventories. However, SMM expects production to recover in March by 4.7% MoM, to reach 715kt with hopes of improving logistics in the nation. Among other metals, refined lead production in China witnessed larger than expected declines. Lead output fell 16.6% MoM and 4.9% YoY to 214kt, as major producers such as Hunan Yuteng and Yunnan Zhenxing extended operation suspensions until the end of February. Refined zinc production also declined to 453kt (-7.7% MoM) in February, compared to 528kt in January. China's refined nickel and NPI production also dropped by 7% and 7.5% respectively, due to low operating rates and a constrained transportation system. The standout though is primary aluminium, even though monthly production remained weak last month, coming in at 2.9mt, combined output over the first two months of the year grew 5% YoY to 6mt. For March, the group estimates production to reach 3.08mt, an increase of 6% MoM.

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