Trump's Trade War Escalation Puts U.S. Energy in Crosshairs

U.S. gas is under threat as a trade war with China escalates.

China may target American liquefied natural gas in retaliation for a fresh round of duties announced Monday by the U.S. While the Asian nation last month said it was considering a 25 percent tariff on the fuel, it hadn't yet provided any details when it vowed Tuesday to take new action.

The move would be a setback for a burgeoning energy relationship that was on track to be a boon for both economies. The move would also add new pressure on the U.S. LNG industry, which is competing with Russia, Australia and Qatar for market share in China, the world's biggest gas buyer. Just last year, U.S. officials were courting Chinese companies to invest in new export projects.

The tariffs would signal how much pain Presidents Xi Jinping and Donald Trump are willing to endure not to back down from a trade fight. Trump risks stifling the U.S. gas export industry, which is seeking an estimated $139 billion to fund more than a dozen projects, while Xi threatens to raise the cost of his drive to eliminate smog by burning less coal.

China's LNG Purchases

U.S. LNG has accounted for nearly 6% of China's imports over the last year: Bernstein"Chinese companies will have an aversion to investing in U.S. LNG projects in the short term" if tariffs are imposed, said Saul Kavonic, Credit Suisse Group AG's director of Asia energy research. "Australia and Qatar's LNG sectors will benefit from being seen as a lower risk source of supply by customers in the world's fastest growing LNG market, at least over the near term."

Booming Demand

China's push to use more natural gas is driving global demand growth, with LNG imports jumping 47 percent in the first seven months of the year. Though it's the third-largest buyer of U.S. cargoes, American supply made up a little less than 6 percent of purchases over that period, according to Sanford C. Bernstein & Co. If U.S. companies can seize 20 percent of the market by 2030, it could lower the trade deficit with China by $50 billion, Bernstein estimates.

Higher oil prices and a surge in LNG demand have reignited interest in export ventures, with about 15 U.S. projects targeting final investment decision this year and next, the most of any nation, according to Bloomberg NEF. Projects have been seeking investments or off-take agreements from China, which earlier this year topped Japan as the world's biggest gas importer.

“It is hard to see any of these hopeful projects getting another Chinese buyer signed up for long-term volumes” if China slaps tariffs on U.S. gas, Trevor Sikorski, an analyst at Energy Aspects Ltd., said by email. “Given China is a huge part of global LNG demand growth, that is a big headwind for these new projects.”

Liquefied Natural Gas Ltd., which is yet to make a final investment decision of the $4.35 billion Magnolia LNG project in Louisiana, expects Chinese buyers will wait for uncertainty on tariffs to be removed before signing contracts, Chief Executive Officer Greg Vesey said Monday at an industry conference in Barcelona.

Exporting nations such as Australia and Qatar could benefit from the trade tensions, according to Xizhou Zhou, an analyst at IHS Markit.

“You have two important parties in the LNG market — one is a very important large buyer, one is an important large supplier — less likely to negotiate with each other,” he said by phone. “So Qataris, Australians will have less competition when it comes to the Chinese market for long-term contracts. ”

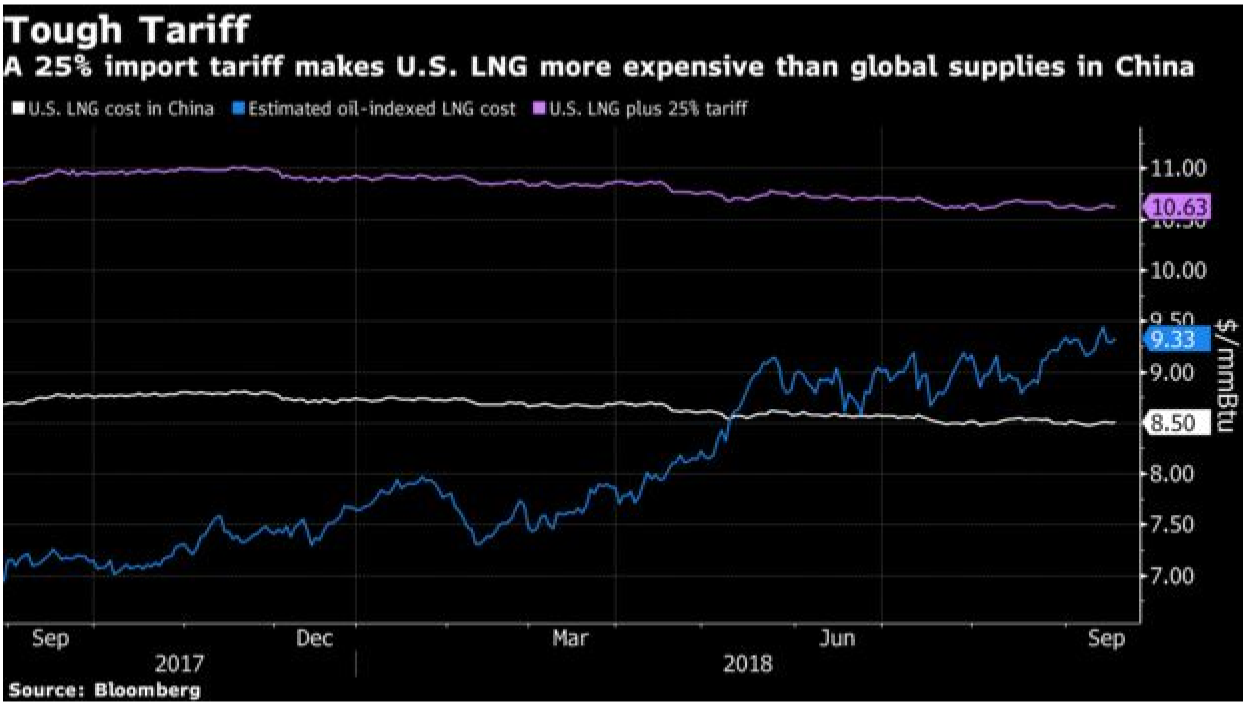
The GasLog Greece, which left Cheniere Energy Inc.’s liquefied natural gas export terminal in Louisiana on Aug. 15 en route to China, changed its destination mid-journey to South Korea. It was one of at least two U.S. LNG shipments heading for China during the past month. The other ship, Rioja Knutsen, arrived Sept. 3 at Tianjin.

More than a month ago, state-owned PetroChina Co. contemplated temporarily halting purchases of U.S. gas and increasing buying from other nations, while ENN Group, a private gas distributor and burgeoning LNG importer, decided not to buy any supplies from the U.S. this winter, Bloomberg reported last month.

Most LNG cargoes are sold at a price linked oil, whereas U.S.

supplies are often priced off domestic gas prices, which have declined about 4 percent this year. China’s decision comes as U.S. gas has become cheaper than oil-linked cargoes and amid the prospect of crude continuing to rise over the next few years. LNG spot prices in Northeast Asia this year have averaged the highest since 2014, at around $9.70 per million British thermal units. Prices last year surged on the back of China’s soaring consumption.

That’s why the tariffs are an especially cruel blow for companies backing prospective U.S. liquefied natural gas export terminals, including Tellurian Inc., Liquefied Natural Gas Ltd. and Pembina Pipeline Corp. A 25 percent levy would lift U.S. LNG back above oil-linked costs.



On the other hand, that’s good news for energy giants that have LNG prospects outside the U.S. That includes Irving, Texas-based Exxon Mobil Corp., which has ties to projects in Qatar, Papua New Guinea and Mozambique, and Royal Dutch Shell Plc, which is aiming to build a plant in western Canada, operates a project in Australia and has one of the world’s biggest LNG trading portfolios.

Exxon also signed a preliminary deal earlier this month to participate in a potential LNG import terminal in southern China, as well as supply it with gas. Separately, PetroChina inked a deal with Qatar to purchase 3.4 million tons of LNG annually, the Chinese company's biggest supply deal yet. The agreement, which will start this month, could help China forgo some U.S. supplies during peak winter demand.

Merchant trading houses like Vitol SA, Trafigura Group Pte. Ltd. and Gunvor Group Ltd., may also be able to benefit by, for example, routing U.S. LNG to buyers including Japan and South Korea while selling Malaysian or Australian fuel meant for those markets to China instead, all with a little added mark-up for themselves.

– *With assistance by Dan Murtaugh, and Anna Shiryaevskaya*

Can Trump win if he escalates his trade war with China?

Bryce Baschuk Washington/Geneva

US President Donald Trump is threatening to intensify an ongoing trade war by rolling out tariff s on $267bn worth of Chinese exports to the US, on top of the $200bn worth that he could soon hit with duties. He previously had imposed tariff s, which act like a tax on imports, on $50bn worth of Chinese products, and could soon run out of ways to levy more duties: The total of imposed and threatened tariff s is now $517bn, yet the US only bought $505bn of goods from China last year. China has hit back with tariff s on US goods. The US also has levied duties on steel and aluminium imports from most countries, including allies Canada, Mexico and the European

Union.

They also reacted with tariff s of their own. It adds up to an all-out trade war, one that risks gumming up global supply chains, raising consumer prices, stalling economic growth and tying the World Trade Organisation in knots. What's less clear is whether it will end the way Trump wants.

1. What is a trade war? The dictionary says it's "an economic conflict in which countries impose import restrictions on each other in order to harm each other's trade." Trump's tariff s and the retaliation by other countries, both threatened and enacted, meet this definition. But so do centuries of protectionist skirmishes by numerous countries in countless sectors. What makes this a full-blown trade war are Trump's singling out of China for retaliation, the tit-for-tat actions by the US and its closest allies over metals tariff s, and Trump's invocation of national security to justify some of his moves – which could open a Pandora's Box of similar claims by other nations.

2. What happened in previous trade wars? One of the most notorious examples is the Smoot-Hawley Act passed by Congress in 1930 that is often blamed for deepening the Great Depression. The law, which eff ectively hiked US tariff s by an average of 59%, initially was meant to protect American farmers. But many other industries lobbied for protection, and Congress agreed. The tariff s caused other countries to retaliate against the US and each other, which resulted in higher prices on many manufactured and consumer goods. As demand collapsed, countries scrambled to maintain their gold reserves by devaluing their currencies or imposing even more trade barriers. Global trade fell off a cliff .

3. Who wins in trade wars? Trump has said the US has a stronger economy and can outlast China in a trade war. The US economy is booming and China's is showing signs of stress. But the longer the dispute goes on, the more both sides will see

casualties. For Trump, those could include key constituencies, such as consumers who are accustomed to buying lower-priced goods made in China. Already, many companies are warning of lower profits because of higher prices for raw materials, supply- chain disruptions and sales declines. The US also has begun a $12bn programme to bail out farmers hurt by China’s and other countries’ retaliatory tariff s on US exports of soybeans, corn and other crops. Tit-for-tat tariff s “so far have only produced increased costs for American businesses, farmers, importers, exporters and consumers,’’ a coalition of about 150 business and trade organisations told the Trump administration.

4. Why is Trump inviting this fi ght? In a March 2 Twitter post, he declared trade wars “good, and easy to win.” Trump later said duties on Chinese imports are justified after decades in which China tilted the playing field, including by devaluing its currency and forcing American companies to share their technology. He has repeatedly pledged to reduce the US trade deficit – the diff erence between what the US imports and what it exports. But by the end of 2017, the deficit had risen to $568bn from $505bn in 2016, and it has kept on rising. Stepping back from trade deals like the North American Free Trade Agreement and the Trans-Pacific Partnership also appeals to Trump’s base of voters in America’s Rust Belt. But talk of a trade war is alarming to many US business leaders, who largely support existing trade deals, and the securities markets, which fear lower profits and slower economic growth.

5. Could tariff s backfi re on the US? They could. Take steel, for instance. Many more people are employed in industries, such as auto manufacturing, that buy steel to make products than in steel-making itself. President George W Bush’s higher steel tariff s, imposed from 2002 to 2005 to protect against a surge in imports, created a $30mn drag on US gross domestic product, according to the US International Trade Commission. Workers’ wages fell economy-wide, investors saw lower returns

on capital and about 200,000 jobs were lost. Trade tensions could boost inflation more than desired by Federal Reserve policymakers, who might feel the need to raise rates more aggressively than planned.

6. Could the WTO help resolve the situation? The WTO is supposed to be the arbiter of international trade disputes. It was created in 1995 out of a set of agreements struck by countries trying to reduce trade barriers. If a government's complaint about another nation's trade barriers is seen as grounded, the WTO recommends acceptable retaliation. But the US and China both propose justifying tariff s under domestic law, rather than following established WTO procedures, limiting the WTO's ability to mediate. In the case of aluminium and steel, Trump is invoking a seldom-used clause of a 1962 law that gives him the authority to curb imports if they undermine national security. His administration is studying whether to use the same law to justify restricted automobile imports. Other nations could copy the US move.

7. Are tariff s the only weapon in trade wars? No, there are many others, including clamping down on Chinese investments in the US, as Trump has also done. Intentionally weakening one's currency, which he accuses China of doing, is another. One worry for the US is that China, the US's biggest creditor, will scale back purchases of Treasuries, an option that China's ambassador to the US doesn't rule out. China could also retaliate against the US in non-trade matters. Trump has accused China, for example, of undermining North Korea denuclearisation talks in retaliation for hitting China's exports with tariff s. Countries through the years have used other means to keep foreign goods out and protect home-grown companies, a practice known as mercantilism. Some practices are blatant, such as quotas and subsidies for domestic industries (which Trump also accuses China of doing); others are less obvious, such as unusual product specifications, lengthy inspections of goods at entry ports and intricate

licensing requirements.

Trump presses OPEC to reduce prices as crude trades near $80

New York: US President Donald Trump resumed his criticism of Opec, saying on Twitter that the body “must get prices down now!”

Trump’s fresh intervention in the oil market comes before a meeting of ministers from the Organisation of Petroleum Exporting Countries and its allies in Algeria on Sunday. His complaint follows signals from Saudi Arabia that it was content to see prices climb above $80 (Dh294) a barrel. That’s been a red line for the White House in the past, provoking the president to direct his first social-media barb against the body since July 4.

Brent crude futures were 0.6 per cent lower in London, erasing an earlier gain of as much as 0.5 per cent to trade at $78.92 a barrel at 1:07pm local time.

Trump’s tweet makes sense “with oil prices close to the highs of the year,” said Giovanni Staunovo, commodity analyst at UBS Group AG. “Considering the upcoming Opec meeting in Algiers, he wants to keep pressure on the group ahead of the midterm elections.”

the president is returning to a playbook that’s won him significant victories already this year. His first attack on Opec came on April 20, just hours after Saudi Arabia’s Oil Minister Khalid Al Falih said that Opec would continue its production cuts so that oil prices could rise further. Within a month, the kingdom had performed a dramatic U-turn and by June the body and its allies were promising to add 1 million barrels a day to the oil market.

Prices dipped as low at $70 in London in August, but have since risen as American sanctions began to significantly curb Iran’s oil exports. While Saudi Arabia and Russia have recently boosted output to compensate, it’s unclear whether they’re willing or able to offset all the losses from Iran.

Saudi Arabia is now comfortable with Brent oil prices rising above $80 a barrel, at least in the short term, as the global market adjusts to the loss of Iranian supply, people familiar with the kingdom’s view said this week.

The change in the kingdom’s view on prices coincided with some intense oil diplomacy. In the last two weeks, Al-Falih has met his counterparts from Russia and the US, Alexander Novak and Rick Perry, to discuss the oil market and the impact of US sanctions on Iran. It’s unclear, however, whether the Saudis discussed prices with Russian and American officials.

Saudi Arabia has markedly increased oil exports to America, a sign OPEC’s leading producer is responding to pressure from Trump. Earlier this month, Saudi shipments into the US reached a four-week average of 1 million barrels a day for the first time since late 2017, according to government data.

— Bloomberg

Turkey slashes growth forecasts to boost investor confidence

Reuters Ankara

Turkey sharply cut its growth forecasts for this year and next yesterday, but disappointed investors who had hoped for a plan

to help banks and a deeper reduction in the estimates to reflect the fragile state of the economy.
Turkey has seen its lira currency plunge by 40% this year on concerns about political influence over monetary policy and a bitter diplomatic rift with the US.
The turbulence has shaken global financial markets and raised the prospect of a potential banking crisis at home.
Markets had been hoping that Finance Minister Berat Albayrak’s medium-term programme announced yesterday would signal a clear break from the emphasis on credit-fuelled growth that has characterised Turkey’s rapid expansion over the last decade and a half.
Albayrak said growth would be 3.8% this year and 2.3% in 2019, both revised down from forecasts of 5.5%.
He also did not deliver the big plans for the banking industry that some analysts had been hoping for, particularly, the creation of a “bad bank” vehicle to take over non-performing loans.
Following the presentation, the chairman of Turkey’s BDDK banking watchdog said there would not be a transfer of problem loans to another institution.
“At the moment, the programme is a disappointment. First, when you look at the growth forecast, the current account deficit forecast, they are too ambitious,” said Guillaume Tresca, a senior EM strategist at Credit Agricole. “We don’t have anything new, regarding a bad bank, regarding the treatment of (non-performing loans), regarding the foreign-exchange funding of the banking system or the foreign-exchange funding of the corporates. It is lacking details and it is lacking news.”
The lira weakened to 6.3100 by 1219 GMT, from around 6.20 beforehand and a close of 6.2541 on Wednesday.
The currency has now erased almost all the gains made since the central bank’s mammoth interest rate hike of 6.25 percentage points last week, underscoring the difficulty policymakers face in putting a floor under the lira and restoring confidence.
Sources told Reuters on Wednesday there was a debate among top

government officials about the extent of the growth revisions, highlighting the delicate balance between the long-standing drive for economic expansion and investors' calls for greater austerity.

Albayrak, President Recep Tayyip Erdogan's son-in-law, had previously promised "realistic macro targets" and "right action plans".

"We will see a gradual growth increase from now on. Our main goal is to establish 5% growth from 2021 onwards," Albayrak told yesterday's presentation in Istanbul.

He did not take questions.

"We will realise the necessary policies and measures to ensure economic hardships are overcome," he said. "We are aware of the economy's strong and weak points."

For financial markets, the biggest concerns remain inflation – which Albayrak forecast would hit 20.8% this year and 15.9% next year – and the banking sector.

Turkey's banks face a potential deluge of bad debt as the lira sell-off has driven up the cost for companies to service their foreign currency loans.

For years Turkish firms borrowed in dollars and euros, drawn by lower interest rates.

JPMorgan estimates that the private sector has around $146bn in external debt maturing in the year to July 2019.

Ratings agencies Moody's and Fitch have both sounded the alarm about the outlook for banks.

Fitch has estimated that banks' foreign-currency lending stood at around 43% of all loans.

But the government has repeatedly said it does not expect problems in the banking sector.

30% LNG output surge by 2024 to ‘drive Qatar’s next development phase’: QNB

Qatar’s decision to increase LNG output by 30% by 2024 will “increasingly drive Qatar’s next development phase” as the current multi-year wave of infrastructure spending begins to flatten out in terms of growth contribution, according to QNB.

The 30% increase will boost Qatar’s LNG capacity from 77mn tonnes currently to 100mn tonnes by 2024.

This increase in capacity, QNB said, will require huge investments, both onshore and offshore, including the construction of three new LNG trains to process the gas.

Beyond the direct impact on non-hydrocarbon GDP, this new investment phase, which should begin in earnest from 2020 onwards, will generate substantial multiplier effects on the wider economy, lifting demand for goods and services and driving the country’s development in line with the Qatar National Vision 2030, QNB said in its ‘Qatar Economic Insight

– September’.

Non-hydrocarbon GDP is expected to gain by 5% in 2018. Continued infrastructure spending as the government focuses on completing major projects in key sectors will ensure that construction remains the backbone of the non-hydrocarbon sector with forecast growth of 15.5%.

Higher oil prices will also allow for some positive multiplier effects on domestic demand, it said.

Government policies aimed at strengthening the private sector and boosting self-sufficiency and food security will also support demand growth, QNB said.

Sectors of agriculture (8.2% growth), manufacturing (3.2% growth), transportation and storage (3% growth) are expected to be the key beneficiaries with growth in these sectors expected to pick up further in 2019.

Continued population growth, with mid-year population expected to hit a record 2.81mn in 2018 then rising further to 2.89mn in 2019, will also work to spur additional domestic demand.

For 2019 as a whole, QNB forecasts non-hydrocarbon GDP growth of 5.3%, leaving overall GDP growth at 3.2%.

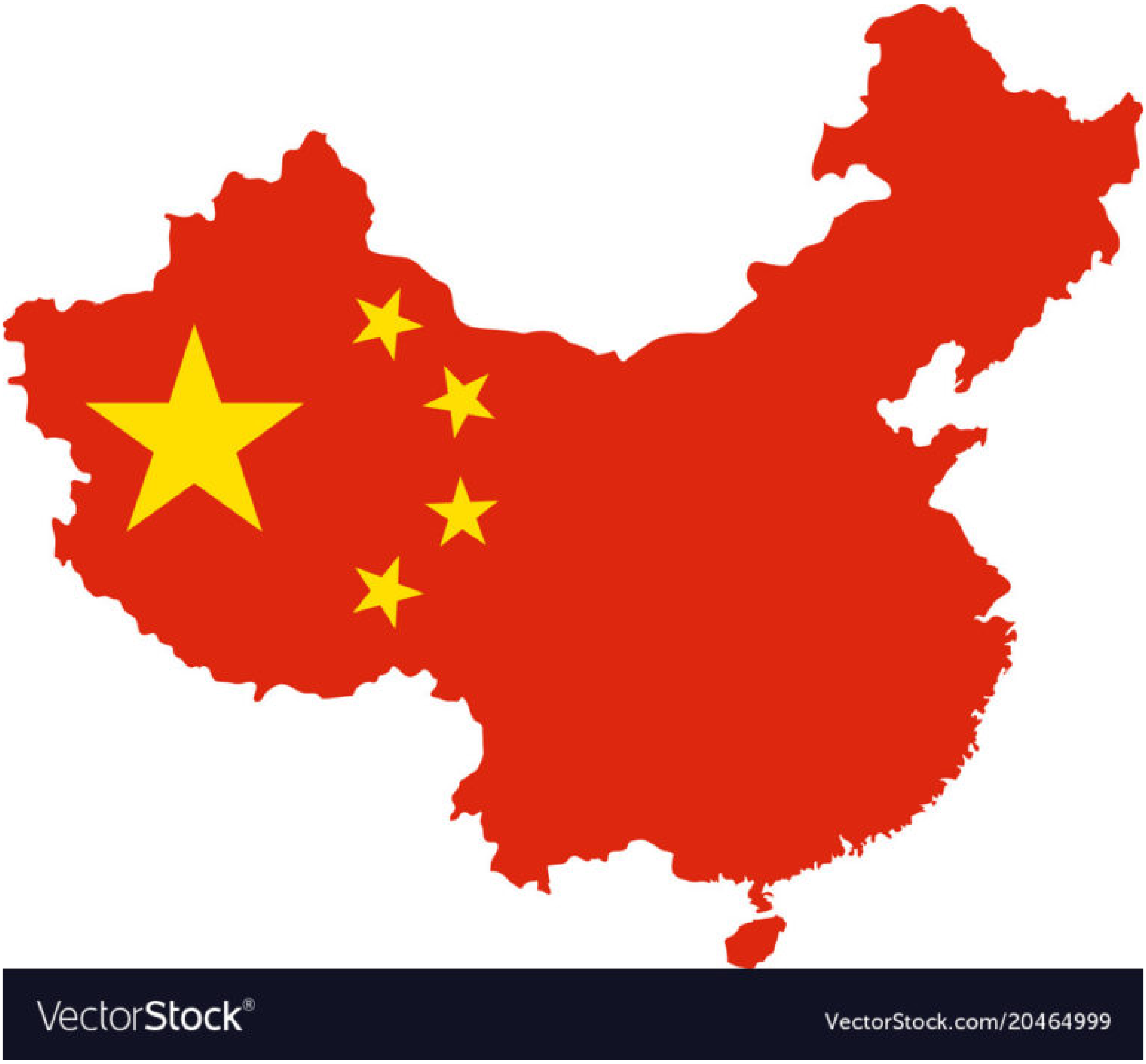
And GDP growth this year is forecast to improve to 2.6% from 2017’s 1.6% out-turn, QNB said.

On the hydrocarbon side, a modest growth of 0.2% is anticipated, which would end four years of declines.

The lifting of Opec production cuts should modestly boost crude oil production, while the end of maintenance work and temporary shutdowns should start to spur a recovery in LNG output through the year.

A further pick up of 0.7% in hydrocarbon output is then expected in 2019, QNB said.

China says U.S. putting 'knife to its neck', hard to proceed on trade



EIJING (Reuters) – A senior Chinese official said on Tuesday it is difficult to proceed with trade talks with the United States while Washington is putting "a knife to China's neck", a day after both sides heaped fresh tariffs on each other's goods.

When the talks can restart would depend on the "will" of the United States, Vice Commerce Minister Wang Shouwen said at a news conference in Beijing.

U.S. tariffs on $200 billion worth of Chinese goods and retaliatory taxes by Beijing on $60 billion worth of U.S. products including liquefied natural gas (LNG) kicked in on Monday, unnerving global financial markets.

"Now that the United States has adopted such a huge trade restriction measure … how can the negotiations proceed? It's not an equal negotiation," Wang said, stressing the United States has abandoned its mutual understanding with China.

The Chinese government's top diplomat also told business people at a meeting in New York that talks could not take place against the backdrop of "threats and pressure", the Foreign Ministry said.

Certain forces in the United States have been making groundless criticisms against China about trade and security issues, which has poisoned the atmosphere for Sino-U.S. ties and is highly irresponsible, State Councillor Wang Yi was quoted as saying, without naming anyone.

"If this continues, it will destroy in an instant the gains of the last four decades of China-U.S. relations," Wang told members of the U.S.-China Business Council and National Committee on United States-China Relations.

U.S. representatives there included Blackstone Group LP (BX.N) co-founder and Chief Executive Stephen Schwarzman and Mastercard Inc (MA.N) Chief Executive Ajay Banga, the National Committee on United States-China Relations said on its website.

China also accused the United States of engaging in "trade bullyism”, and said Washington was intimidating other countries to submit to its will, according to a white paper on the dispute published by China’s State Council, or cabinet, on Monday.

Several rounds of Sino-U.S. talks in recent months have appeared to produce no breakthroughs, and fresh mid-level negotiations which had been expected in coming weeks have been shelved after Beijing reportedly decided late last week not to send a delegation to Washington.

While Vice Commerce Minister Wang said he still hopes “there is a way out” if both sides treat each other with sincerity, analysts say neither side looks to be in the mood to compromise in the increasingly bitter dispute, raising the risk of a lengthy battle that could chill the global economy by discouraging business investment and disrupting trade.

“The sharp criticism (from Beijing on Monday) suggests that China might prefer to wait out the current U.S. administration, rather than embarking on potentially futile negotiations,” Mizuho Bank said in a note to clients.

“Given these developments, it is increasingly likely that both sides will not resume negotiations for some time, at least until there is a noticeable shift in the political mood on either side.”

DISRUPTING GLOBAL SUPPLY CHAINS

U.S. exporters including LNG suppliers would “certainly” be hurt, but Beijing’s retaliation would provide opportunities to other LNG-exporting countries, Vice Commerce Minister Wang said, adding that Australia is an important source of the fuel for China.

“China is a big and powerful nation, so whether it is a confrontation with China economically or militarily, it would come at a huge price,” the state-backed Global Times said in an editorial on Tuesday.

“As such, it is an attractive prospect for other countries including the United States to coexist with China peacefully,” said the newspaper, which is published by the ruling Communist Party’s People’s Daily.

China does not know why the United States changed its mind after reaching an agreement with China on trade earlier, Wang said. He was apparently referring to talks in May, when it appeared that the two sides had sorted out a framework before the White House backed away.

Luo Wen, a vice minister at the Ministry of Industry and Information, told a news conference that the government is aware that some foreign companies are considering relocating out of China as the trade row threatens to heighten their risks and costs.

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China Gas stock seen to rally 40% over 12 months

China's concerted chase for blue skies is making China Gas Holdings a hot stock as the gas distributor carries out an ambitious strategy to convert villages from burning coal to using the cleaner fuel. The stock is poised to rally 40% over the 12 months, according to the consensus of more than 20 analysts surveyed by Bloomberg. That gap over its current share price is the biggest since at least 2004 and is the most among its domestic peers. Shares of Chinese gas distributors have been on a roll, aided by President Xi Jinping's battle against air pollution by curbing the nation's reliance on sooty coal, and China Gas stands out for its rural connectivity strategy.

Fuel substitution in villages will drive the connected household growth, according to Goldman Sachs Group Inc, adding the government will extend environmental protection policies to new cities over the next three years. “Gas distributors continue to con- nect new customers at a transforma- tional pace, leading to acceleration in both earnings and cash flows,” Goldman analysts including Mark Wiseman said in an Aug 31 note. “Rural investment is a diff erentiator” for China Gas, they wrote. Shares of China Gas have gained 8.3% this year to close at HK$23.40 on Friday in Hong Kong, compared with a 12-month target price of HK$32.69. Of the 26 analysts covering the stock, 13 have the equivalent of a buy rating, while eight recommend holding and five calling for a sell, data compiled by Bloomberg show. The company began targeting rural areas in northern China since the central government strengthened anti-pollution measures by pushing for provinces to switch from coal to gas last year.

Other distributors such as ENN Energy Holdings and China Resources Gas Group Ltd have devoted less resources to rural projects as they’re worried about the low margins. China Gas’ focus on rural con- nections may make it vulnerable to changes in policies, such as lower subsidies or tighter restrictions for those projects, according to Jeff eries Group LLC and Daiwa Securities Co. Hebei province said in July that new conversion projects will only begin when suppliers are able to confirm gas availability, which could slow the rate of customer switching. Those concerns might be unjusti- fied, said Citigroup Inc, which has China Gas on its “Top Buys” list.

Iraq’s southern crude oil exports approach record

Reuters/London

Oil exports from southern Iraq are heading for a record high this month, two industry sources said, adding to signs that Opec’s second-largest producer is following through on a deal to raise supply and local unrest is not affecting shipments.
Southern Iraqi exports in the first 19 days of September averaged 3.6mn bpd, according to ship-tracking data compiled by an industry source, up 20,000 bpd from August’s 3.58mn bpd – the existing monthly record.
The increase follows June’s pact among Opec and allied producers to boost supply after they had curbed output since 2017 to remove a glut.
Iraq in August provided Opec’s second-largest increase as shipments drop from Iran, which is facing renewed US sanctions.
A second industry source who tracks shipments also said exports this month had averaged 3.6mn bpd, reflecting smooth operations at export terminals and no sign that unrest in

Basra, Iraq’s second city, was disrupting flows.
“There were fears that the protests would get to the terminal,” this source said. “But so far, there is no impact.”
Protests in Basra against Iraq’s political establishment erupted in July.
In early September, Basra airport was attacked with rockets and protesters briefly took oilfield workers hostage.
Before the June Opec deal, Iraq had been boosting exports from southern terminals to offset a halt in shipments from the northern Kirkuk region last October after Iraqi forces seized control of oilfields there from Kurdish fighters.
Northern exports have held steady in September, averaging around 400,000 bpd so far, according to shipping data and one of the industry sources.
This is up from about 300,000 bpd in July but short of levels above 500,000 bpd in some months of 2017.
On June 22-23, Opec, Russia and other non-members agreed to return to 100% compliance with output cuts that began in January 2017.
That amounted to an increase of about 1mn bpd, according to Opec’s lead member, Saudi Arabia.
A group of Opec and non-Opec ministers and officials monitoring the agreement met yesterday in Algeria.
Iraq has said it is ready to boost output and in August pumped an extra 90,000 bpd, Opec’s second-largest increase after Libya, according to analyst and oil-industry media estimates compiled by Opec.
Iraq itself said production in August was steady.

Brent crude oil tests key

resistance; industrial metals rebound

early weakness after the US announcement of additional tariff s on $200bn worth of Chinese imports. The broad-based recovery that followed in global stocks and currencies was driven by a combination of the US tariff s coming in at the lower 10% bracket and China, while responding with its own counter tariff s, announcing plans to cut taxes, lift consumption, and lowering its average tariff rate on imports from most of its trading partners as soon as October. While these developments may have helped sentiment, a proper de- escalation in China/US relations has yet to be seen. Given this, some caution is warranted unless the recent dollar weakness continues to provide support.

Growth-dependent commodities such as energy and not least industrial metals received a boost. Since June, when the trade war began, it has been worries more than actual data pointing towards a slowdown that has driven the negative sentiment. Any sign of easing tensions is therefore likely to trigger renewed demand from consumers who had put off purchases in recent months. Brent crude oil tested key resistance after Saudi

Arabia said it was comfortable with Brent above $80/ barrel. The Saudi comment was probably driven by the realisation that Opec members and Russia are unable to off set the ongoing slump in Iranian production; President Trump renewing his attack on Opec and high oil prices in a tweet failed to weaken the price. Trump’s sanctions against Iran are the main reason behind the elevated prices currently seen.

The European power market continued its wild gyrations with renewed strength in ECX Carbon emissions and rising coal prices driving a new surge in power prices across the region. Natural gas jumped the most since January and the near 7% rally on the week saw it return to face resistance once again at $3/therm. The rally was driven by lower than expected Chinese tariff s on LNG imports from the US and stocks being some 18% below the seasonal average with just a few weeks left before winter demand sets in. Rising US production this year has been met with rising demand and rising exports. HG copper jumped more than 6% on China’s spending pledge and the move helped support a recovery among the semi-precious metals – not least palladium and platinum with the latter seeing its discount to gold drop to a six- month low from a record just a couple of weeks ago. Gold took some comfort from the weaker dollar but struggled to keep up with headwinds arising from higher US bond yields, the September 26 Federal Open Market Committee meeting, and a weaker JPY against the dollar. Gold’s struggle to keep up with a recovery among other metals was seen through the lower ratios against both copper and platinum.

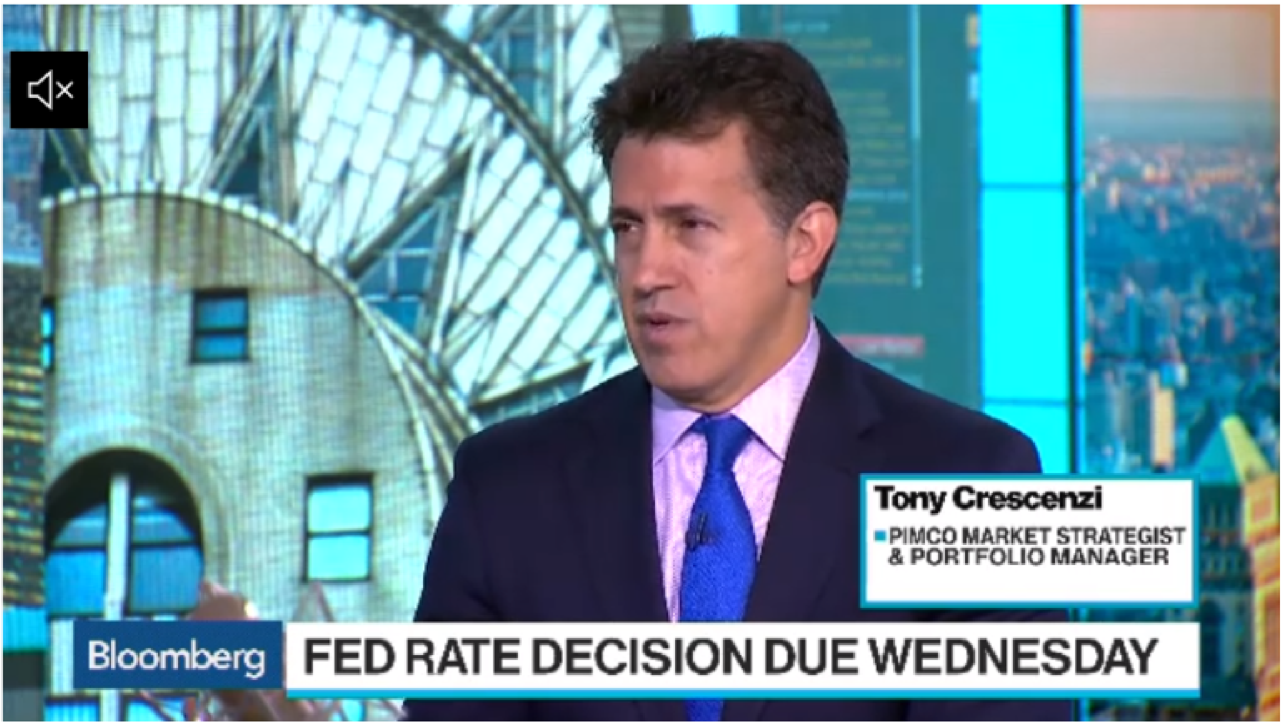
The battle for a shrinking global liquidity pool will heat up over the coming months and the US needs to attract an increased amount of funds to cover its growing deficit. The weaker dollar despite rising US bond yields this past week may indicate that investors worried about rising US funding requirements no longer find the current yield levels attractive at the current dollar valuation. These developments may eventually see the greenback weaken, removing some of the recent pressure on emerging market countries struggling with their dollar debt at a time of rising interest rates. If this materializes, some profitable months may lie ahead for commodities as investors and funds turn short positions back into longs. Gold has been range-bound around $1,200/oz for the past month while its room for manoeuvring, as per the chart below, continues to narrow. At this point we maintain a neutral outlook while waiting for a trigger strong enough to take it out of the current range.

The combination of a record short and some dollar buying fatigue leads us to believe that the upside eventually will be challenged. Key levels to look out for to the upside are $1,212/oz, $1,224/oz and particularly $1,238/oz. A break back below $1,188/oz, however, could once again see the metal's resolve being tested. Crude oil remains supported and at risk of breaking higher as supply concerns intensify. Despite increased production from some Opec members and Russia together with robust US export sales of crude, the market is turning increasingly tight. Iranian exports have already witnessed a sharp reduction and are likely to fall further when US sanctions come into eff ect in November.

Opec and its allies meet in Algiers on September 23 to discuss oil market developments. This follows the June Opec+ meeting, which saw the production cap deal nearly abandoned despite Iranian objections. With Saudi Arabia, Iraq, and Russia producing at will, a contentious meeting high on politics and low on results await. The major factor here is Tehran, as Iranian leaders feel betrayed and have said they will veto any Opec decision that harms their country. President Trump's growing fondness for trying to impact markets via Twitter fell short of halting oil's ascent after he once again went on the attack against Opec saying that they "continue to push for higher and higher oil prices".

With Trump's Iran sanctions expected to force a minimum drop of 1mn barrels/day there is little Opec and its allies currently can do to stem the risk of rising prices. The best they can hope for is that the short-term supply deficit will not push prices so high that it hurts the medium- to longer-term outlook for global growth and demand for oil. Ole Hansen is head of Commodity Strategy at Saxo Bank.

ECB on runway to rate liftoff considers what should happen next



European Central Bank officials are starting to discuss priming investors for the euro area’s first interest-rate increase since 2011, a conversation that could see them putting the U.S. experience of three years ago under the microscope.

With the Governing Council indicating borrowing costs will stay at record lows “at least through the summer of 2019,” two of President Mario Draghi’s lieutenants are already talking about what happens after that. Executive Board members Benoit Coeure and Peter Praet want to communicate more on the pace of increases to avoid stirring up markets.

Concerns over the impact of tighter policy are likely heightened by the memory of the two increases in 2011 being swiftly undone as the euro zone tipped into recession. Officials insist the economy is now strong enough to face global risks from trade protectionism to Brexit, but also regularly cite market volatility as a risk. That makes a so-called dovish hike an attractive goal.

“What they are trying to communicate to investors is that the lift-off is going to be slow,” said Nick Kounis, head of macro and financial markets research at ABN Amro Bank NV in Amsterdam. “The ECB has learned its communication lesson from the Federal Reserve, and they want to make sure well ahead of time that markets are clear on their thinking.”

Policy makers aren’t all on the same page though. Governing Council member Ewald Nowotny, Austria’s central-bank chief, said on Sunday that officials should “ask if it’s really sensible” to lock in record-low rates for so long. Draghi may be quizzed on his view when he testifies to the European Parliament on Monday.

Under then-Chair Janet Yellen, the Fed was widely lauded when it raised rates in December 2015. After a rocky start in May 2013, when she was vice chair and her boss, Ben Bernanke, spooked investors by unexpectedly suggesting asset purchases might be tapered, the central bank successfully reached lift-off with barely a murmur of discontent in the markets.

Incremental Steps

The strategy was a series of incremental language changes, ranging from subtle to blatant, that signaled a rate hike was getting closer. As asset purchases ended in October 2014, the

Fed said rates would stay near zero for a “considerable time.” That was dropped in January 2015 as the economy improved, though policy makers cautioned they’d remain “patient.”

In March, they pinned a hike on “further improvement in the labor market.” By July, a tweak to say the Fed awaited “some” further improvement in the labor market was a one-word addition that inched them toward liftoff. Officials finally teed up the decision in their October statement with an unusual reference to their “next meeting.”

Praet, the ECB’s chief economist, told an audience in New York on Thursday that communication on how to adapt policy beyond the first rate hike will become “increasingly important” next year.

Rate Path

Coeure, who is in charge of market operations and is a potential successor to Draghi in November 2019, said in Berlin that he would prefer to outline the economic conditions that justify higher borrowing costs.

He rejected publishing an expected path of interest rates, as Sweden’s Riksbank does. The Fed uses a so-called dot-plot chart compiling anonymous predictions by policy makers for how fast they expect rates to rise.

The Norwegian central bank showed last week how the pace of monetary tightening can matter more for markets than the actual timing of the first move. The krone dropped after Governor Oystein Olsen raised rates for the first time in seven years and lowered his projection for how fast they’ll climb in the years ahead.

The Bank of England, which in August raised its benchmark rate to the highest since the financial crisis, takes a milder approach, colored by the uncertainties surrounding the U.K.’s departure from the European Union. It says future increases in the key rate will be “at a gradual pace and to a limited extent.”

The process never stops. The Fed is currently wrestling with the question of where to end tightening, and Chairman Jerome Powell is considering how to change communication.

“If the ECB wants to be in control, the sooner they start talking about their plans the better,” said Anatoli Annenkov, senior economist at Societe Generale SA in London. “There are sufficient reasons to believe that at times the communication is quite difficult and markets may not believe you.”