The Commodities Feed: Another vaccine boost

Your daily roundup of commodity news and ING views

Vaccine

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Energy

The Moderna vaccine news was enough to provide a boost for oil, along with most other risk assets yesterday. Although admittedly the rally was much more modest compared to what we saw following the Pfizer announcement early last week. Again, developments with regards to a vaccine are constructive for oil demand in the medium to long term. However, for the near term it changes little, with still plenty of concern over the demand impact from the latest wave of Covid-19. Despite this, over the last week, we have seen the prompt ICE Brent timespread strengthen significantly to a contango of just US$0.17/bbl, compared to US$0.49/bbl at the start of the month. While some of this strength would have likely been on the back of vaccine news, the bulk of it is probably due to growing expectations that OPEC+ will rollover current cuts into next year.

There are reports that the Joint Technical Committee (JTC) made the recommendation to OPEC+ yesterday to extend current output cuts by between 3 to 6 months. While the JTC can give recommendations, it cannot make any policy decisions. For that, we will need to wait for the official OPEC+ meeting at the end of the month. However, before that, expect further noise around what action OPEC+ could take, with the Joint Ministerial Monitoring Committee meeting today. We continue to hold the view that OPEC+ need to rollover current cuts of 7.7MMbbls/d in order to ensure the market continues to draw down inventories over 1Q21.

Finally, the latest drilling productivity report from the EIA shows that the number of drilled but uncompleted wells (DUCs) fell by 86 over October to total 7,558. Over the last three months, the number of DUCs has fallen by 283, to the lowest level since December 2018. Given the slowdown in drilling activity seen since Covid-19, producers are completing DUCs in order to try to maintain output levels. Completions over October reached their highest level since May, with 402 wells completed over the month.

Metals

Base metals and iron ore continued their upward rally on Monday, as risk assets received a boost not only from better-than-expected factory output data from China, but also continued optimism over a Covid-19 vaccine, following the Moderna news yesterday.

LME copper prices reached an intra-day high of US$7179/t yesterday (highest since June 2018) as China continued to pump liquidity into the financial system for a fourth straight month. The People's Bank of China infused ¥800B (US$121B) through its one-year medium-term lending facility yesterday, in its continuous effort to support the post-pandemic economic recovery. Gains in LME nickel were relatively moderate compared to other peers yesterday. The extended weakness in the Chinese stainless steel market seems to be dragging on sentiment for nickel, despite the class 1 market remaining tight. ShFE stainless steel prices have fallen to their lowest since July this year, and this has led to weaker production of the 300 series nickel rich type of stainless steel.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com