The Commodities Feed: Decisions, decisions. What will OPEC+ do?

Your daily roundup of commodity news and ING views

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Energy

Oil has continued to move higher over the week, with ICE Brent rallying more than 8% so far this week, and edging ever closer towards the US$50/bbl level. The market continues to be carried by a wave of optimism over Covid-19 vaccines. However more interesting is the move that we have seen in the forward curve. Just a week ago the curve was still clearly in carry, however now we basically have the curve in backwardation all the way through 2021 and into early 2022. While tighter spreads further out make sense, with the expectation that a rollout of a vaccine will improve the demand picture, the move in the nearby spreads is a bit more odd. While vaccines may be rolled out sooner than expected, it is unlikely that it will be widely available for several more months still, therefore the demand picture will likely remain soft in the near term, and so the balance sheet over 1Q21 remains fragile.

The shape of the WTI forward curve makes more sense to us, and is more aligned with the thought process mentioned above, where nearby WTI timespreads are still in contango, reflecting the weaker fundamentals in the near term. But from the May-21 contract, the curve is in backwardation basically all the way through to the end of 2021.

If we were to get OPEC+ rolling over cuts, it would be easier to justify the strength in the front end of the ICE Brent curve, and while the market seems to have largely priced in a three-month rollover, it is by no means guaranteed. As we have mentioned several times recently, the risk for the market is that it rallies too much too soon ahead of the OPEC+ meeting next week. The group would likely be more open to rolling over cuts if prices were trading around the US$40/bbl level, however with Brent quickly approaching US$50/bbl, there might be some opposition within the group to delay an easing in cuts. Iraq, the second largest OPEC producer, has made it already quite clear that they are not happy with the level of cuts they are having to make.

Therefore heading into the OPEC+ meeting we think risk is skewed to the downside. It is unlikely that OPEC+ surprise with a six-month rollover given the latest move in prices, while the three-month rollover is already largely priced in. So anything less than a three-month extension will likely be seen as bearish.

Finally, the EIA reported yesterday that US crude oil inventories declined by 754Mbbls over the last week, while expectations were for a small build. Cushing crude oil inventories fell by 1.72MMbbls over the week, and given that we have also seen the WTI timespreads tighten over the last month, it's likely that we continue to see a drawdown of Cushing inventories moving ahead. Looking at products, gasoline inventories increased by 2.18MMbbls over the week, which has put a bit of pressure on gasoline cracks. Distillate fuel oil stocks have continued to edge lower, falling by 1.44MMbbls over the week. Since late August, distillate stocks in the US have fallen by around 36.6MMbbls, however they still remain around 12MMbbls above the five-year average.

Metals

Further weakness in the US dollar this morning has helped to push metals higher today, with LME copper making new recent highs today, with it breaking above the U$7,370/t mark. Gold has managed to hold above the US$1,800/oz mark, despite the recent pressure we have seen on the market, with a rotation towards risk assets. The 200-day moving average has provided some solid support for spot gold, but a break below this level could bring in a further wave of selling.

Meanwhile, Hydro has restarted production at its B-line at the Husnes aluminium plant located in western Norway, after running at half capacity since 2009. The plant which produced 95kt of aluminium annually from the A-line, now expects output to gradually increase to 195kt as the B-line resumes production.

Finally, latest customs data from China shows that Chinese imports of copper concentrate from Australia in October fell by more than half from a month earlier, which once again raises speculation that Beijing has placed an unofficial ban on shipments. Early this month, media reports suggested that the Chinese government had instructed companies not to purchase copper and copper concentrate (including six other commodities) from Australia, starting from 6 November, with deteriorating relations between the two nations. Chinese copper concentrate shipments from Australia fell 54.2% month-on-month and 34.5% year-on-year to 40.5kt last month. Australia remained the fifth largest copper supplier to China, and accounted for 4.8% of total Chinese copper concentrate imports in 2019.

Agriculture

Both CBOT corn and soybean traded softer for a second consecutive day yesterday with an improvement in weather in Latin America appearing to help supply prospects. Brazil & Argentina had been facing dry weather this season, which had delayed sowings; however, favourable weather now could help speed up the sowing process. Data from Buenos Aires Grain Exchange earlier showed that corn planting in Argentina is lagging around 14.3% behind the last year's sowing progress, whilst soybean plantings trail by around 2.5% compared to last year.

UNICA data shows that sugar cane crushing in Center-South Brazil increased 2% YoY to 20.3mt over the first half of November 2020, higher than the market expectations of around 18.8mt, according to a Bloomberg survey. Total sugar production increased 57% YoY to 1.24mt over the period, as millers continue to allocate more cane to sugar production. The sugar mix over the fortnight was 41.7%, significantly higher than the 28.4% seen for the same period last year.

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