The Commodities Feed: OPEC+ to decide on output cuts

Your daily roundup of commodity news and ING views

Source: Shutterstock

Energy

The oil market has started 2021 on a strong footing, with ICE Brent breaking above US$53/bbl in Asian morning trading. This strength comes despite the uncertainty over what OPEC+ will decide when they meet later today. The group will have to decide whether they will keep output cuts unchanged at 7.2MMbbls/d in February, or ease them by a further 500Mbbls/d. Price action today suggests that the market is assuming that OPEC+ keeps the level of cuts unchanged for the upcoming month. Unsurprisingly, the Russians appear to support a further easing in cuts, while Saudi Arabia is likely keen to take a more prudent approach. There are clear concerns for the market still, with Covid-19 providing downside risks, particularly with the latest strain of the virus. OPEC's secretary general commented over the weekend that the outlook over the first half of the year is mixed, and that there is plenty of downside risk.

We believe that in the current environment, where there are real concerns over the latest waves of Covid-19, the best route for OPEC+ to take is to keep output cuts unchanged at current levels. Despite the strength in the flat price and spreads, the market is still clearly vulnerable, and adding further supply risks a pullback in prices.

Moving on, and latest data from CDU-TEK shows that Russia produced 10.04MMbbls/d of crude oil and condensate over the month of December, which is largely unchanged MoM, but down 10.9% YoY. Meanwhile looking at oil output over the whole of 2020, it averaged 10.25MMbbls/d, down 1MMbbls/d YoY, and obviously reflects the significant OPEC+ cuts.

Turning to the gas market, and European hub prices continue to be dragged higher by the strength that we are seeing in Asian LNG prices, with Asian prices breaking above US$14/MMBtu, levels last seen back in 2014. In fact, LNG has turned out to be the best performing commodity over 2020. A number of supply issues over recent months have helped to tighten the market, while colder than usual weather in North Asia has only provided further upside for prices. However the current high price environment has seen some cancel purchase tenders, and clearly we could see further tender cancellations if these stronger prices persist.

Author

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