

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.