The Commodities Feed: Vaccine boost

Your daily roundup of commodity news and ING views

Bus stop ad for COVID-19 testing is shown outside Pfizer world headquarters in New York

Source: Shutterstock

Energy

Risk assets started yesterday on a strong footing, and positive developments on a Covid-19 vaccine provided the market with a further boost. ICE Brent traded up more than 10% at one point during the day. It looks like the vaccine news caught the market off guard, given the extent of the move. For oil, the quicker a vaccine comes to the market, the sooner we can return to some form of normality with our lives, which would be constructive for oil demand. Realistically, however, a widely distributed vaccine is still some distance away, which means it's unlikely to change the demand picture in the near term. So if the oil market continues to rally between now and the OPEC+ meeting at the end of the month, it could prove self-defeating, as some members may grow more reluctant to roll over current cuts into next year, leaving the market vulnerable over the first quarter of next year.

Prior to the vaccine news, the market would also have taken comfort from comments from some OPEC+ oil ministers, who spoke at an industry event yesterday. These ministers mentioned the possibility of tweaking the current output cut deal, which basically means rolling over current cuts into next year. Again if the market continues to move higher from here, between now and their meeting at the end of this month, these views may change.

In terms of today's newsflow, the API is set to release weekly inventory numbers later today. Expectations are that US crude oil inventories declined by around 2MMbbls over the last week, with

US Gulf of Mexico production affected once again from hurricane activity. On the product side, expectations are for gasoline stocks to increase in the region of 1MMbbls, while distillate fuel oil stocks are expected to decline.

Metals

Base metals received a double boost from the vaccine announcement and Biden's victory, which saw copper touching an intra-day high US$7,054/tonne before strength in the USD index weighed on the metal. Meanwhile, gold and the rest of the precious metals complex turned out to be the biggest loser yesterday, given the risk-on move we saw on the back of the vaccine news.

Turning to fundamentals, members of the largest union striking at the Candelaria copper mine in Chile rejected the latest offer from the miner yesterday, which sees strike action entering its fourth week. Meanwhile, the latest SMM survey shows that China's copper cathode output rose 2.7% MoM and 4.93% YoY to 821.6kt in October, as large domestic smelters maintained high production levels. On a YTD basis, copper cathode output rose 3.75% YoY to total 7.6mt. Among other metals, Chinese primary aluminium output increased 8.5% YoY to total 3.25mt in October, as high margins encouraged newly commissioned and resumed capacity to ramp up production levels. During the first ten months of the year, primary aluminium output rose 4.2% YoY to 31mt. The standout though is nickel and lead, where production dropped by 9.25% and 1.2% YoY respectively.

Agriculture

The National Federation of Cooperative Sugar Factories in India reported that Indian sugar production increased more than three-fold to 425kt over the period between 1 October to 5 November 2020. Sugar cane crushing has been higher so far this season, with 149 mills starting operations already this season. This compares to just 39 at the same stage last year. The Federation expects India's sugar production to be around 31-32mt this season (up 13-15% YoY), which will create a domestic surplus of around 5-6mt. India has provided export subsidies over the past two years to support exports and reduce the domestic inventory overhang. However, the government has refrained from extending the export subsidy so far this season, which has been supportive of sugar prices in the international market.

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