The Commodities Feed: Risk on sentiment dominates

Your daily roundup of commodity news and ING views

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Energy

Crude oil prices continued to trade firm with ICE Brent trading above US$50/bbl on optimism around the Covid-19 vaccine, with the US Food and Drug Administration (FDA) giving emergency use authorisation to Pfizer-BioNTech vaccine last week. The vaccine rollout in the US will likely start from today. A tanker explosion at the Saudi Port of Jeddah today also supported oil prices; though the cause of the explosion remains uncertain for now. Positive sentiment can also be seen in the CFTC Commitment of Traders report, with the managed money net long position in ICE Brent increasing by 26,999 lots over the last week. Money managers created fresh longs of 24,839 lots over the week and also covered 2,160 lots of short positions. This is the fifth consecutive week of higher speculative longs with speculative net longs increasing to a nine-month high of 272,863 lots. Managed money net longs are still only a fraction of the peak made in April 2018 (632,454 lots) and reflect the potential for further longs if current optimism continues.

Looking ahead there are a number of data releases scheduled for the current week. OPEC will be releasing its monthly oil market report later today followed by the IEA's monthly report on Tuesday; both of which will be watched closely for any revision in demand estimates for next year, as optimism around the vaccine rollout continues to rise. Later OPEC+ JMMC will have their meeting on 16 December to assess the market situation and provide recommendations, if any, to the group on further output cuts. Also, the EIA will be releasing its monthly drilling productivity report on Monday and usual weekly petroleum status report on Wednesday.

Metals

The base metals complex started the week on a stronger footing amid a weaker US dollar and the FDA's vaccine approval. Looking ahead, the market will be focusing on the FOMC meeting (15-16 December) for its latest policy guidance as well as any news on the US Covid-19 relief package talks. Meanwhile according to the latest CFTC data, it appeared that the funds community has maintained its enthusiasm for copper. Money managers continued to increase their net long position in COMEX copper for a third consecutive week; speculators bought 4,694 lots over the last reporting week, leaving them with a net long of 90,434 lots as of last Tuesday. They also added to net longs in COMEX gold by 19,084 lots, leaving them with a net long of 126,737 lots, and increased their net longs in silver marginally by 194 lots.

On the copper mine supply side, Antofagasta's Centinela copper mine will offer a new wage package on Monday to the Distrito union in an attempt to resolve the remaining differences. The union rejected the management's last wage offer on Friday and is the only union at the mine which has still not accepted the company's offer. However, if both parties fail to reach an agreement, the union with 270 members could begin to strike on Tuesday.

China last week posted strong growth in both exports and domestic car sales in November which added to the bullish view on metal demand. November car sales grew by 7.6% month-on-month (or 12.6% year-on-year), although total sales during the first 11 months were 22.47 million units, down by 2.9% year-on-year, according to the China Association of Automobiles Manufacturers (CAAM). The secretary-general of the CAAM expects total car sales to register a 2% decline for the full year 2020 which is far better than expected at the start of the year. As for the higher copper intensity new energy vehicles, sales surged by 24.1% MoM in November to 200,000 units which brings total sales in the first 11 months to over 1.1 million units (+105% YoY). November imports of unwrought copper and copper alloys together fell by 9% month-on-month to 561kt which leaves total imports over the first 11 months to 6.2 million tonnes (+38.7% YoY). This marks the second month of import contraction, which is chiefly due to fewer import arbitrage opportunities.

In the aluminium market, investors continued to closely watch inventory changes in China's physical market as the latest data still points to a moderate decline, suggesting firm demand. As we noted last week, domestic alumina market prices have started to diverge between the northern and southern markets as winter cuts led to forced cutbacks at alumina refineries.

In the zinc market, an accident (18 November) at Vedanta's Gamsberg mine has led to some closures of zinc mines in Northern China to keep the concentrate market tight. Spot treatment charges for zinc remain depressed for both import and domestic concentrate. As per the latest reports, a major smelter and an anther medium-sized smelter have both chosen to run maintenance. Meanwhile, total refined zinc social inventories (three major cities) gained over 3% totalling 139.8kt according to the latest data on Monday.

Agriculture

CBOT wheat futures have been trading up 1% in early morning trade today after a 3% jump on

Friday on fears that Russia may curb wheat exports from the country to keep domestic prices under control. Media reports suggest that Russia is considering plans to impose export taxes on wheat alongside the earlier proposed export quota as domestic supplies of wheat tighten up and local wheat prices remain elevated. Russia makes up nearly 20% of global wheat exports, and curbs on Russian exports could tighten the overseas market considerably. Further helping wheat prices is the USDA's WASDE report released on Thursday last week which lowered the estimates for global ending stocks of wheat. The agency now estimates that wheat stocks at the end of 2020/21 will be around 316.5mt compared to its earlier estimate of 320.5mt mainly due to stronger demand prospects from China.

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