Vaccine and weather buoy commodities

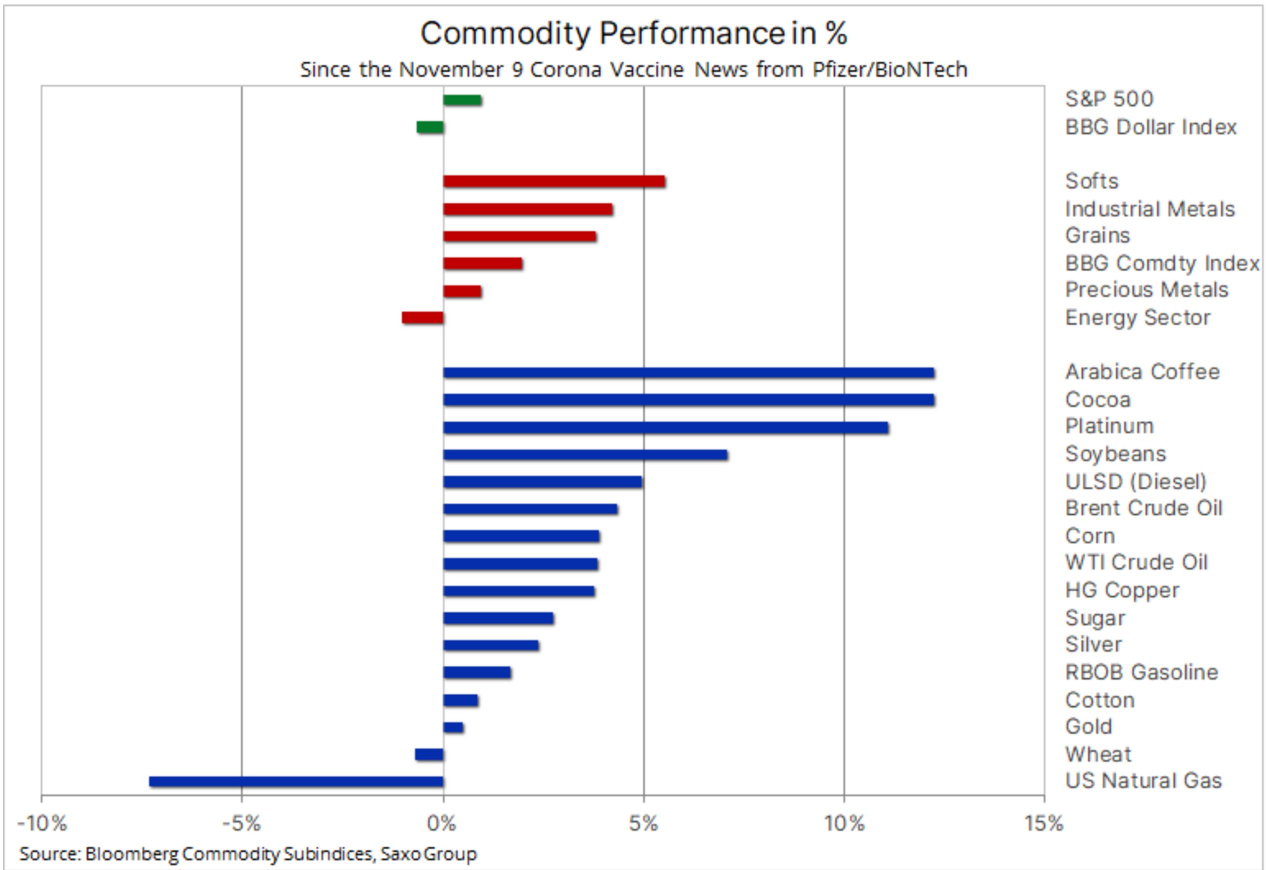
By Ole S. Hansen // November 20, 2020

Global markets remain torn between the negative impact of surging coronavirus cases around the world and the prospect for vaccines being rolled out in the new year. Since the November 9 vaccine announcement from Pfizer/BioNTech and Moderna this past week, the markets have tried to focus on a recovery theme. This outlook, however, is still being hampered by uncertainties with regards to the timing of when vaccines will have a meaningful impact on the global community. Not least considering the continued surge in coronavirus cases across the world leading to renewed lockdowns and reduced mobility.

This also partly helps to explain why the commodity sector has 'only' risen by 2% since the November 9 announcement. While energy and industrial metals, which would benefit from increased mobility and economic recovery, have risen the major gains have to some extent continued to be driven by the agricultural sector.

Zooming in on this past week we find cocoa, coffee and platinum on top while natural gas, silver and gold scrape the bottom with politics, weather and vaccine news the key drivers behind these developments. New York-traded cocoa surged 12% after Hershey, one of America's top chocolate makers, took to the unusual step to source large amounts from the futures exchange instead of the physical market after West African nations added a hefty premium for their beans.

Coffee jumped by 10% as Brazil recorded the driest three-month period in four decades while platinum rallied on the outlook for a tighter market and was also helped by the vaccine news which sent precious metals in the opposite direction. Finally, natural gas slumped 12% with the NOAA seeing demand-killing warm weather into early December.

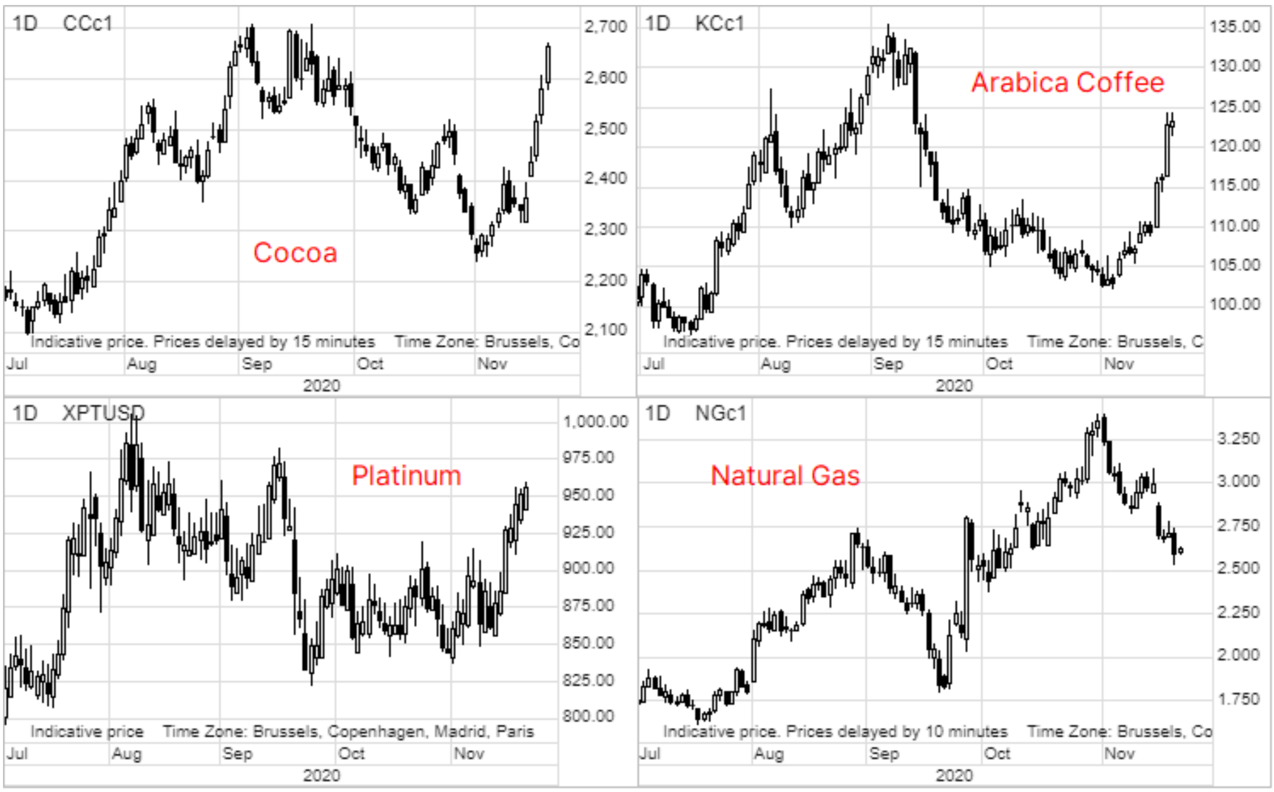


As mentioned, **cocoa** surged higher after Hersey, according to Bloomberg, stepped in and bought a large amount of cocoa futures for delivery during December. As a result, the December price over the March, the next futures contract, jumped from zero to a record 250 dollars. In order to understand why a major chocolate buyer suddenly bids up the price for supplies by more 250 dollars we have to look at the alternative.

Earlier this year Ivory Coast and Ghana, in order to support local farmers, decided to add a hefty $400/ton premium on supplies from the 2020-21 season which began in October. However, faced with reduced demand due to lockdowns buyers have been balking at paying the premium at a time of weakening demand. As a result, the futures price has rocketed while the West African nations still have a lot of cocoa from the current crop to sell.

Platinum jumped above $900/oz to record its best week in four months. What made the move stand out was the fact that gold and silver both went in the opposite direction in response to vaccine news-related profit taking. The rally gathered momentum after the World Platinum Investment Council in its [Platinum Quarterly] raised the 2020 supply deficit to 1.2 million ounces with a deficit of 0.2 million seen in 2021. Reasons being the stellar rebound in automotive demand and sustained strong investment demand for precious metals, including platinum.

Natural Gas: Finally, not a week without a looser and this time the always-volatile natural gas contract scraped the bottom. Unseasonably warm weather has reduced heating demand, thereby lifting stock levels while delaying the beginning of the winter withdrawal season. Last week, some 31 billion cubic feet went into storage versus a five-year average drop of 24 billion cubic feet.



Source: Saxo Group

Gold continued to lose momentum in response to recent vaccine announcements and their potential effectiveness in combatting a not-yet-under-control coronavirus outbreak. This development has driven a small exodus out of exchange-traded funds with total holdings down 1.75 million ounces to 109.3 million, a 2 ½-month low.

These developments have raised the risk of a deeper correction, but at the same time it is worth keeping in mind that ETF flows are more often lagging instead of leading the price action. As we have highlighted in previous updates, the vaccine can kill the virus but not the mountain of debt that has been accumulated this year. Central banks are expected to maintain ultraloose monetary conditions, which inadvertently may lead to rising risk of higher inflation through a policy mistake in not reacting sooner to the eventual recovery.

Apart from the risk of rising inflation providing medium-term support to gold, another key driver for commodities in general and especially precious metals remains the inverse correlation to the dollar. Analysts at the big banks, according to the Financial Times, predict that the dollar could fall 20% if a widely available coronavirus jab leads to an economic rebound in 2021.

While short-term technical traders may look for shorting opportunities on a break below $1850/oz, investors with a longer-term view are – in our opinion - likely to take the opportunity to accumulated at lower levels.

Source: Saxo Group

While **energy** futures may struggle to break higher until fundamentals show an actual improvement, the forward-looking stock market does not have the same problem. Since the first vaccine news from Pfizer/BioNTech hit the wires on November 9, major oil companies have rallied strongly. The MSCI World Energy index has since that day risen by 19% while the XLE ETF tracking major U.S. energy producers had risen by almost one-quarter.

Even after these strong gains, both of these are still down by 35% and 40% respectively in 2020. During the same time, Brent and WTI crude oil futures have added around half the gains seen at company level.

While we believe that the energy sector eventually will see a strong revival, patience with regards to the futures market may still be required. While a vaccine will eventually drive a normalization in demand, we should not forget that crude oil and commodities in general do not, like equities, have the luxury of being able to roll forward expectations as supply and demand need to balance every day.

With this in mind, we still see the prompt price of crude oil struggling to break much higher anytime soon. However, the pull from rallying back month contracts and speculative buying at the front could see it higher in the short term.

Vaccine impact on energy sector	Since Nov. 9	YTD
ETF's		
SPDR MSCI World Energy (WNRG)	19.1%	-35.9%
Exploration & prod. (XOP)	29.5%	-44.5%
Large Cap Energy Prod. (XLE)	24.4%	-40.0%
Oil Majors		
Chevron Corp (CVX)	20.5%	-28.9%
Exxon Mobil (XOM)	14.1%	-46.4%
Royal Dutch Shell (RDSA)	21.6%	-45.1%
Total SA (FP)	23.5%	-30.7%
BP (BP/)	22.0%	-48.3%
Equinor (EQNR)	10.3%	-22.1%
China Petroleum (386 HK)	11.0%	-22.6%
U.S. oil and gas producers		
ConocoPhillips (COP)	35.2%	-39.3%
Occidental Petroleum (OXY)	33.5%	-67.6%
EOG Resources (EOG)	31.5%	-45.7%
Pioneer Natural Resouces (PXD)	24.9%	-36.2%
Energy futures		
Brent	11.2%	-41.2%
WTI	11.8%	-57.2%
Gasoline	7.7%	-42.5%
Source: Bloomberg, Saxo Group		

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