

Scotiabank index stronger on oil, copper rally

Written by Logan Drilling Group

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JOHANNESBURG (miningweekly.com) – The Scotiabank Commodity Price Index gained 9.1% month-on-month in October, supported by large positive moves in both the oil and gas and metals and minerals sub-indices. Of note in each of these markets are the recently concluded Organisation of the Petroleum Exporting Countries (Opec) agreement and copper's aggressive 30% rally.

Opec last week agreed that it would reduce output by around 1.2-million barrels a day from January 2017 – its first oil output cuts since 2008 after Saudi Arabia accepted "a big hit" on its production and dropped its demand on arch rival Iran to slash output.

Opec produces a third of the world's oil, or around 33.6-million barrels a day.

Non-Opec Russia will also join output reductions for the first time in 15 years to help boost the country's oil price.

These cuts are conditional on further coordinated non-Opec cuts pegged at 0.6-million barrels a day, which will most likely come from Russia, Oman, and other central Asian producers. Moreover, volatility is expected to increase further as a result of the increased importance of unpredictable Opec communication and the forthcoming confirmation of non-Opec commitments.

"Sentiment will be even more important than usual with this deal because we have to wait months before we can verify production levels with secondary Opec sources in March 2017," said Scotiabank commodity economist Rory Johnston.

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"The deal is also fragile, with virtually every player stating that participation is entirely dependent on everyone else doing their part," he added.

If participants are 100% compliant with the deal presented, a 1.8-million-barrels-a-day cut should move market balances firmly into deficit, though this will need to be maintained for a prolonged period if global inventories are to return to more typical levels. Opec has stressed that it sees this collective cut as an altruistic action that helps balance the oil market more quickly than it would organically, which Opec claims is better for producers and consumers alike.

Meanwhile, Johnston highlighted copper's aggressive rally from \$2.10/lb on October 24 to \$2.74/lb on November 28 – the highest level since the summer of 2015 – as the stand-out metals story of the month.

"We believe that the rally is due to a mix of market overreaction to some transient tightness in refined metal balances and the subsequent speculative repositioning that helped maintain copper's journey upward. This rally doesn't alter our medium-term view on copper, and we expect prices to average in the \$2.20/lb to \$2.30/lb range between now and the end of 2018."

Gold also saw a brief spike over October and November, as most pre-election gold commentary made it seem like the prospect of a Donald Trump presidency would be markedly bullish, with many forecasting a gold price of \$1 500/oz. It appeared to be heading in that direction in the early hours following the election, with gold jumping by \$65/oz before falling back to negative territory by the end of business that day.

While a faster assumed path for US interest rate normalisation is expected to put broad pressure on gold prices, 2017 could present a repeat of this year's political surprises with an ample supply of European Union elections and referenda on the docket.

"We continue to maintain our pre-election 2017/18 average gold forecast of \$1 300/oz," concluded Scotiabank.

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Written by Megan van Wyngaardt

Editing by Samantha Herbst

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