

The Commodities Feed: A sea of red

The commodities complex came under further pressure yesterday. Energy, metals and agri were unable to escape the broader weakness. Rising covid infections in China are a key demand concern in the short term, while milder weather in Europe is adding further pressure to the energy complex



Rising Covid-19 cases in China are weighing on the demand outlook for oil

Energy - prompt demand concerns

The weak start to the New Year has continued for oil. ICE Brent fell by a further 5.19% yesterday, which left the market trading convincingly below US\$80/bbl. Time spreads have also weakened along with the flat price. The prompt ICE Brent spread has slipped back into a contango, after trading stronger over much of the second half of December. Chinese Covid infections are a concern for demand in the immediate term, however, the medium to long-term outlook is more constructive following the change in China's covid policy.

The oil market is looking better supplied in the near term and risks are likely skewed to the downside. However, our oil balance starts to show a tightening in the market from the second quarter through to the end of the year, which suggests that we should see stronger prices from 2Q23 onwards.

API numbers released overnight show that US crude oil inventories increased by 3.3MMbbls over

the last week. Part of the build would have likely been driven by refinery shutdowns along the US Gulf Coast as a result of the extremely cold conditions seen in December. For refined products, gasoline stocks increased by 1.2MMbbls, whilst distillate stocks fell by 2.4MMbbls.

European natural gas prices have also continued their slide. TTF declined by around 10% yesterday, leaving the market at a little over EUR65/MWh- the lowest level since 2021. Mild weather has meant that storage is still looking very comfortable in the middle of winter and milder weather is expected to continue for a while longer. Interestingly, Europe is no longer trading at a premium to spot Asian LNG. In fact, Asia is trading at a premium of more than US\$9/MMBtu to TTF, which suggests that we could start to see more LNG cargoes diverted towards Asia at the expense of Europe.

Metals – Demand hit by rising China Covid infections

Demand for industrial metals is being hit by surging coronavirus infections in China following an abrupt exit from Beijing's zero-Covid policy. Any gains are likely to be capped as Lunar New Year approaches. LME copper 3M prices traded below \$8,300/t while nickel prices fell by more than 4% on the day and led the declines amongst base metals yesterday.

The latest data from LME shows exchange inventories for zinc falling for a ninth consecutive day by 1.6kt to 30.5kt (the lowest level since 1989), whilst lead on-warrant stocks dropped to the lowest since 1997 as of yesterday.

Nexa Resources has halted production at its Atacocha San Gerardo open-pit zinc mine in Peru due to a road blockade by a local Machcan community. The zinc producer, controlled by Brazilian holding company Votorantim SA, said the obstruction of the road to the mine has not had a material impact on production to date. Atacocha accounts for less than 3% of the company's total zinc production.

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