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COMMODITIES DAILY

# The Commodities Feed: API reports US stock draw

Your daily roundup of commodity news and ING views



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## Energy

Having had a strong start to the year, the rally in oil appears to have run out of steam, with Brent trading in a rather rangebound manner in recent weeks. Market participants are now in 'wait and see' mode, wanting to see how lockdowns evolve in the coming weeks and months, and how successful countries are in rolling out Covid-19 vaccines. The one factor which has made the market a bit nervous about demand is the localised lockdowns that we are seeing in parts of China. The Chinese government also continues to discourage people from traveling over the upcoming Chinese New Year holiday, and the transport ministry is expecting passenger trips during the holiday period to be down 40% from 2019 levels.

While the flat price has been rather rangebound, time spreads continue to strengthen, and the front-month ICE Brent spread has traded to a backwardation of US\$0.27/bbl, the strongest level we have seen in the front-month spread since February last year. The ICE Brent forward curve is in full backwardation, and this would be welcome news to OPEC+, and shows their success in tightening up the oil market following the demand hit from Covid-19.

Overnight, the API released its latest US inventory numbers, which showed that US crude oil

inventories declined by 5.27MMbbls over the week, while Cushing stocks fell by 3.48MMbbls. The crude oil drawdown has offered some support to the market in early trading this morning, with the market expecting a build of around 1.5MMbbls in the lead up to the release. On the product side, the numbers were less constructive, with the API reporting that gasoline and distillate fuel oil inventories increased by 3.06MMbbls and 1.4MMbbls respectively.

### Metals

Risk sentiment has notably turned more cautious with still a lot of uncertainty around Covid-19 and the rollout of vaccines. There are also signals from China, suggesting that the seasonal weaker demand pattern has started to kick in, while comments from the PBoC warning on an asset bubble certainly have not helped sentiment. Gold remains coiled, along with the rest of the precious metals complex ahead of the Fed meeting, with investors awaiting clearer signals on policy tone.

Turning to base metals, and LME zinc saw a large inflow of a little more than 45kt of metal into LME warehouses, which saw the market falling by more than 1.8% over the day. This increase in LME stock also comes amid stock building in the Chinese market, which is largely expected ahead of Chinese New Year. Due to the Covid-19 outbreak in Hebei province, restrictions to logistics are also expected to hurt demand, with the region accounting for roughly 10% of total galvanizing capacity in China. In the short term, pressure on zinc has opened the door for lead to play catch up, and for the latter, stocks have been falling in the China market over the last week, which has boosted market sentiment.

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