

The Commodities Feed: Brent back at \$80/bbl

Your daily roundup of commodity news and ING views



Energy

There were no surprises from OPEC+ yesterday. The group agreed to increase oil output by 400Mbbbls/d in February as originally planned. The move from OPEC+ provides some comfort to the market as it signals that they are confident with the demand outlook in the coming months. As a result, Brent managed to settle at US\$80/bbl yesterday, the highest level since late November. However, there is still a risk overshadowing the market. There are reports that another city in China went into lockdown yesterday after 3 cases of Covid-19 were detected. Clearly, China continues to pursue its zero covid policy and if we were to see more widespread lockdowns domestically that would be a concern for oil demand.

The API reported overnight that US crude oil inventories declined by 6.43MMbbbls over the last week, which by itself appears constructive. However, this crude draw was more than offset by a build-up in refined product inventories. Gasoline and distillate fuel oil stocks grew by 7.06MMbbbls and 4.38MMbbbls respectively. If the EIA reports similar numbers later today, it would be the largest crude oil drawdown since late August.

Metals

Metals were a mixed bag on the first trading day of the New Year. Stronger US Treasury yields carried the dollar with it and put pressure on parts of the complex. LME copper was under pressure

for much of the day, weighed down by a firmer dollar and improved mine supply after concentrate shipments resumed at Las Bambas mine in Peru. European gas prices rose again on signs of reduced Russian flows, which also saw spot power prices surge. This provided supply-constrained metals with another nudge higher, including aluminium and zinc. In addition, a sharp rise in LME aluminium cancelled warrants provided some further support to prices and spreads.

Gold prices have been whipsawed by US Treasury yields so far in the New Year. Nevertheless, spot gold remains above US\$1,800/oz. In the short term, surging cases from the Omicron variant add more complexity to global supply chains and possibly add to inflationary concerns. This should provide some level of support to the market in the short term.

Agriculture

Grain prices have started the year on a positive note on account of some supply concerns in the Americas region. CBOT soybeans have traded to their highest level since August as dry and hot weather in South America weighs on supply prospects. Both Argentina and Brazil have been witnessing relatively hot and dry weather which could impact crop yields. Further helping soybean prices are the floods seen in Malaysia, which have created logistical and production issues for crude palm oil and supported demand for soybean oil.

The USDA reported that US winter wheat conditions in some of the major producing states deteriorated over December due to drought-like conditions. For Kansas, the agency reported 33% of the winter wheat to be in good-to-excellent condition compared to 51% around mid-December and 62% around late November. Wheat ratings in some other states including Oklahoma, Nebraska and Colorado also dropped.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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