

The Commodities Feed: Brent breaks \$60/bbl

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Energy

ICE Brent finally breached US\$60/bbl yesterday, taking YTD gains to almost 17%. This strength has only continued in Asian morning trading, with Brent trading above US\$61/bbl. Oil has got caught up in the broader market move, with growing optimism around declining Covid-19 cases, and the increasing likelihood that we will see the US pass a large stimulus bill. The fundamentals for oil are also supportive, with the additional output cuts from Saudi Arabia having taken effect. This is helping to tighten the market at a quicker pace, and now with falling Covid-19 cases there will be hopes for a more robust demand recovery. Refinery margins already appear to be pointing towards a recovery in fuel demand, with them having strengthened quite a bit recently. These stronger margins should mean that we start to see refiners increasing their utilisation rates.

While optimism around a broader recovery will likely continue to be a supportive factor for oil, there are clear risks. Obviously Covid-19 related restrictions are likely to remain a risk until we see a significant increase in global vaccination rates, which allows a return to some form of normality. Secondly, we are at price levels which will look increasingly attractive to producers, so we would expect to see some producer flows coming into the market, which should provide some resistance

to prices. In addition, in the US we have seen consistent increases in the oil rig count since late November, and with the stronger price environment, we could very well see the increases in the rig count pick up in pace. Looking at the WTI forward curve, while the curve is in backwardation, prices all the way through to the end of 2022 are above US\$50/bbl.

Moving onto the gas market, and the spread between Asian spot LNG prices and TTF hub prices in Europe has weakened recently, with the colder than usual weather in North Asia now behind us, whilst parts of Northern Europe are experiencing a cold snap. The spread between the markets had previously provided a clear incentive to send spot LNG cargoes into Asia, however the narrowing in the spread has made this less clear, and so we will likely see increased LNG flows into Europe once again.

Metals

Base metals extended gains during London hours yesterday amid rising optimism of stimulus and increasing inflation expectations. In addition to this, signs of declining trends in Covid-19 infections is also favouring risk assets.

According to the Ministry of Peru, both copper and zinc mine production ended last year on a higher note. December copper mine production rose by 7.6% MoM to 222kt; meanwhile, zinc mine production jumped by 13% MoM to 156kt, the highest monthly production on record. Despite a strong finish to the year, full-year mine production for both copper and zinc are still lower than levels seen in 2019. For full year 2020, Peru's copper output totaled 2.15mt, down 12.5% YoY, while zinc mine production fell 5.3% YoY to 1.33mt.

Meanwhile, production from China in January was largely lower MoM, with smelters lowering operation rates after hitting annual targets in December. According to the latest SMM survey, China's copper cathode output fell 7.4% MoM to 798kt in January. Among other metals, refined zinc production fell 2% MoM in January. The same trend was also seen in both primary and secondary lead production, with the Covid-19 outbreak causing disruptions to logistics, while some have chosen to go on New Year holidays earlier.

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