The Commodities Feed: Covid-19 cases weigh on oil

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Energy

ICE Brent has been under pressure this morning as well after closing in red on Monday due to the high number of Covid-19 cases in the US and Europe that could be a harbinger of further restriction while there is large uncertainty around the vaccine rollout. Meanwhile, physical demand for crude oil and products appears to remain firm, especially in Asia where economic recovery remains resilient and the pandemic appears to be relatively better controlled. The North Sea physical market also strengthened as the swap market has been flirting with backwardation singling tightness in the market.

Data from Vortexa shows that floating crude oil storage slipped below 100MMbbls for the first time since April 2020 on stronger demand for crude oil amid tight supplies.

Output cuts from OPEC+ and supply losses from the US due to weak prices have helped tighten the market. And although some OPEC supply could be returning to the market in January next year, demand recovery is likely to keep the market tight and continue to push inventory down.

According to Reuters, US gasoline sales during Thanksgiving week fell by 8.4% (to 185 million gallons) from the prior week which is the lowest level for the holiday week since 1997. However, in the imports data for the subsequent week (ending 3 December) showed that US imports of gasoline from Europe increased to 347Mbbls/d for the week, a two-month high as gasoline demand recovered in the US after the thanksgiving holidays.

Diesel imports from Europe also remain elevated at around 1.1MMbbls for the last week though slowed down somewhat compared to 1.7MMbbls of imports a week ago.

Metals

The market was broadly risk-off as traders awaited details on a new stimulus package in the US and the uncertainties around Brexit deal outcomes, which saw precious metals gain strength and London spot gold touching the highest of US$1,868/oz yesterday. The industrial complex was a mixed bag with London copper slipping from its eight-year high after the trade data release, which suggested slower China imports in November. Meanwhile, the supply side strike risks subsided at Centinela copper mine as one of the unions has accepted the wage offer, which is not helping the market.

Aluminium also remained under pressure as signs of inventory building in China market emerged towards the later part of last week. Looking at the premium, there are reports that at least one buyer has agreed to pay a 48% higher premium for 1Q imported supply, indicating a recovering demand and tight supply in transportation. A premium of US$130/t was offered for 1Q21 when compared to a premium of US$88/t for the current quarter. Tuning to zinc, the market gained support from recent suspension at South African based Gamsberg mine and concentrate market tightness in China.

There are reports that the milling operations are starting this week. The spot treatment charges market in China continued to be under pressure as smelters build their winter stocks. In the meantime, some mines in Northern China have suspended as is usual in the winter, which further exacerbated the market tightness.

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