

The Commodities Feed: Covid-19 lockdowns weigh on oil

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Energy

Oil was under pressure for the bulk of yesterday, and this only increased as the day went on. A bearish API report set the tone for the market in early morning trading on Wednesday, while Covid-19 fears hit not just oil, but broader markets as well. News that France had announced a national lockdown, while Germany is set to put in place a partial national lockdown is certainly not a great signal for markets, with it initially thought that any further waves of Covid-19 would be met by more targeted and localised lockdowns.

Clearly this latest wave of Covid-19 will weigh somewhat on oil demand, and with ICE Brent now trading just below US\$40/bbl, OPEC+ will likely be under pressure to take action when they meet at the end of November. For now, this would likely mean just a rollover of current cuts into 2021, which would also help offset the return of Libyan supply. However what happens if Biden wins the US election? There is the potential that he returns to the Iranian nuclear deal, and lifts sanctions, which could bring anywhere between 1.5-2MMbbls/d of Iranian oil supply back onto the market. This additional supply would be difficult for the market to absorb, and a challenge for OPEC+ to offset.

Meanwhile yesterday's EIA report did not help the market at all. US crude oil inventories increased by 4.32MMbbls over the last week, much more than the little over 1MMbbls the market was expecting. The EIA estimates that US crude oil production increased by 1.2MMbbls/d over the last week, to average 11.1MMbbls/d, and suggesting that US Gulf of Mexico production returned to normal following Hurricane Delta. Although production will take a hit in upcoming reports once again, due to the current Hurricane Zeta, which as of yesterday had led to 1.23MMbbls/d of oil production shut, or the equivalent of 66.6% of US GOM oil production.

Refined products were more constructive than the crude oil numbers, with the EIA reporting a small draw of 892Mbbbls in gasoline, along with a larger decline of 4.49MMbbls in distillate fuel oil stocks. These draws were driven mostly by an increase in implied demand over the week, and this stronger demand helped to offset the 1.7 percentage point increase in refinery utilisation. However US refineries were operating at 74.6% of capacity over the last week, which is still some 13.1 percentage points below the levels they were operating at during the same period last year.

Metals

Rising Covid-19 fears are gripping markets, with a couple European countries having announced national lockdowns, and this has weighed on metal markets. Meanwhile, markets will keep an eye on the outcome of a meeting of China's leadership, which will include the country's next 5 year plan.

In nickel, after reports that Nickel Asia had halted production amid rising Covid-19 cases, LME prices rallied earlier in yesterday's session, but failed to hold onto these gains as the day went on, due to the USD rally. In the physical market, due to the Indonesian ore export ban, the Philippines is left as the primary supplier of nickel ore to China. Ore prices have soared to a multi-year high in the Chinese market, with high-grade seaborne ore from the Philippines trading at around US\$97/tonne according to Asian Metals, the highest since 4Q2014. Turning to zinc, both import market TCs and Chinese domestic market TCs have still come under pressure recently, with mine supply growth remaining subdued and smelter stockpiling. There are reports of cuts from two smelters, but up until now nothing very meaningful.

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