

The Commodities Feed: Pressure on the complex

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Energy

Covid worries in China weighed heavily on oil prices yesterday. ICE Brent briefly traded below US\$100/bbl at one stage, although the market still managed to settle above US\$102/bbl, down about 4% from the previous day. The key for the market is how the situation in Beijing develops in the coming days and weeks. In March, apparent oil demand in China came in at around 13.3MMbbls/d, up 2% YoY. It is likely that this has taken quite a big hit over April, but we will need to wait for trade and industrial output data for April to get a better idea of the full impact. Clearly, the risk is if we see a similarly protracted lockdown in Beijing to what we have seen in Shanghai, then demand will remain under pressure through May as well.

Weaker Chinese demand has helped to ease concern over tightness in the oil market. The prompt ICE Brent time spread has come under significant pressure, settling at just US\$0.16/bbl backwardation, significantly weaker than the more than US\$4/bbl backwardation we saw in early March and also the weakest level so far this year. Helping to ease tightness concerns even further have been reports that Libya will resume output at shut oil fields, whilst operations at the CPC terminal have returned to normal, following repair work on a mooring. However, it is worth noting

that this prompt spread will likely be volatile, with us quickly approaching the June contract expiry.

The key upside risk for the market remains a potential EU ban on Russian oil. While it is looking more likely that we will ultimately see a ban, the uncertainty is how quickly a ban will be introduced. There still seem to be differences between some EU member states on how a ban on Russian oil should be approached. And EU diplomat, Josep Borrell, has said that he does not expect a decision to be made on a ban before the next EU summit at the end of next month. If this is the case, the market will have to deal with this uncertainty for a little bit longer.

Metals

Fear of Beijing becoming the next city going into lockdown following Shanghai has seen the metals complex sell off heavily, along with other assets. Instead of snap lockdowns like those in Shenzhen that only lasted for seven days during the month, the prolonged lockdowns in Shanghai and potentially more cities will put Beijing's 5.5% growth target in check and risk increasing demand destruction. China is seeing its worst Covid outbreak since early 2020, forcing markets to reprice the worst-case scenario. However, the Chinese Communist Party's Politburo is expected to convene later this week. Markets will be watching for hints on growth targets and stimuli.

In China, both copper and aluminium total social inventories saw some moderate drawdowns from last week, while zinc saw a marginal pickup of 3kt according to the latest data from SMM. The recent price correction has seen stocks replenishing ahead of the national holidays next week (China's market will be closed from next Monday to Wednesday for the Labour Day holidays). Also, logistical conditions were reported to have improved in some regions, which may have contributed to stock drawdowns.

Norilsk nickel reported its first-quarter production data showing that nickel production jumped by 10%YoY to 52kt despite challenges since the war started. Although this increase is partly due to the lower base from last year, when there were flooding issues at the Oktyabrsk Mine. Copper mine production was largely flat during the period at 91kt, whilst palladium and platinum production fell by 8% YoY and 12% YoY respectively. The producer will leave its metal production guidance numbers unchanged for 2022 despite the ongoing war.

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