

The Commodities Feed: Further Texas supply disruptions

Your daily roundup of commodity news and ING views



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Energy

Energy markets have held onto their recent gains amid the freezing cold weather that we are seeing across parts of the US and in particular Texas. Bloomberg reports that US oil production has fallen by around 3.5MMbbls/d as a result of the freezing conditions. Meanwhile, producer, Occidental has issued a force majeure to buyers as a result of the supply disruptions. For now, the winter storm-warning across Texas remains in force until Thursday morning, and freezing or near-freezing conditions are expected to last until Friday. This suggests that disruptions to crude oil output may linger for at least a couple of days more.

On the refinery side, some refiners have also issued force majeure notices, with their operations disrupted as a result of the storm and power outages. It is estimated that around 3MMbbls/d of refining capacity has been idled as a result.

The stronger price environment will put more attention on OPEC+, and what they may do when they meet on 4 March to discuss production levels from 1 April onwards. There are suggestions that the group could ease output cuts slightly. However, much will depend on how quickly Saudi

Arabia brings back the 1MMbbls/d of additional voluntary cuts it is making over February and March. The group is currently cutting by around 8.13MMbbls/d, and this will reduce to 8.05MMbbls/d in March. If they were to ease to 5.8MMbbls/d, which is the level of cuts they agreed to under the initial deal, that would bring a little over 2.2MMbbls/d of output back, and that is a level the market is likely to balk at. We believe that OPEC+ will likely take a more conservative approach, and ease output more modestly.

Metals

The LME copper cash/3M spread tightened to over US\$20/t, along with low stocks in LME sheds, reinforcing the bullish sentiment stemming from the reflation narrative. LME 3M copper hit a high of US\$8,437/t yesterday, which is a level last seen back in 2012. Gold prices have not benefitted from the same enthusiasm, with spot prices slipping below US\$1,800/oz amid rising nominal yields. The benchmark 10y US Treasury yield rallied to over 1.3%, which we last saw back in February last year.

Platinum's rally continued with spot prices hitting a high of almost US\$1,340/oz, which see its discount to gold and palladium continuing to narrow. Russian platinum miner, MMC Norilsk Nickel, expects the platinum market to encounter a supply surplus of 1moz this year, compared to a balanced market in 2020. For palladium, the miner expects the market to remain in a deficit of 200koz in 2021.

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