The Commodities Feed: More lockdowns begin to weigh on markets

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Energy

ICE Brent started the day yesterday on a positive momentum; however, gave up gains later in the evening after OPEC further revised down its demand estimates for 2021.

The organisation lowered the demand growth estimates to 5.9MMbbls/d for 2021 in comparison to its earlier estimates of 6.25MMbbls/d due to uncertainty on transport fuel demand over the first half of 2021, especially in OECD countries. The vaccine should help normalise economic activities; however, OPEC expects that mild winter, fuel efficiency gains, the continuation of oil displacement programs and subsidy removal will continue to limit oil demand growth.

Demand estimates for first-quarter are revised down by around 1MMbbls/d hinting that OPEC+ may resist further easing of output cuts at least for the first quarter of 2021. OPEC has also revised down its 2020 demand estimates and now expects demand to fall 9.77MMbbls/d this year compared to its earlier estimates of 9.75MMbbls/d of fall. The group has also rescheduled its JMMC meeting to 3-4 January instead of later this week.

In the US, EIA expects US shale oil production to fall by 137Mbbls/d MoM to 7.44MMbbls/d in

January 2021 after falling by around 125Mbbls/d this month. The output in January will be lowest in over six months despite WTI prices recovering to US$47/bbl currently as drilling and exploration investments are yet to pick up. Slower drilling activity over the winter months is also likely to weigh on production over the first quarter of 2021. The Administration reported that the US drilled 334 wells in November 2020 (up by 18 MoM but still down by 670 YoY) with 478 wells completed; count of Drilled but Uncompleted wells dropped by 144 over the month to 7,330 at the end of November 2020.

Metals

More restrictive lockdowns are denting market sentiment which saw investors taking profit weighing on copper yesterday. Meanwhile, US mining company Freeport-McMoRan signed a deal with major Chinese smelters to supply copper concentrate with treatment charges of US$59.5/t - the benchmark for 2021, lower when compared to US$62/t for the current year supply deals.

LME nickel rose by 2.9% to US$17,780/t - the highest level since October 2019 following a rally in stainless steel and was further boosted on reports of riots at Indonesia's nickel producers. However, lead turned out to be the worst performer and prices fell close to 1.5% to the intraday lows of US$2027/t due to the huge inflows reported at LME warehouses yesterday. The latest LME data shows that exchange inventories for lead jumped by 10.17kt (+9.3%) after falling for eight consecutive days to 120kt yesterday, with the majority of the inflows going to Rotterdam and Vlissingen. However, total stocks remained lower when compared to year-to-date highs of 137.5kt during September end.

This morning, the ShFE market remained buoyant after the positive macro data release showing that total investment stood up well at 2.6% YoY year-to-date and the investment in new infrastructure projects jumped by 14.5% YoY year-to-date.

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