

The Commodities Feed: Oil makes a new high

Your daily roundup of commodity news and ING views



Source: Shutterstock

Energy

Oil has continued to edge higher, with ICE Brent breaking above US\$67/bbl, and trading to levels last seen back in early January 2020. Comments from Fed Chairman, Jerome Powell, earlier in the week relating to the need for monetary policy to remain accommodative have probably helped, but sentiment in the oil market has also become more bullish, with expectations for a tightening oil balance.

Yesterday the EIA released its weekly inventory report, which would have covered a large part of the disruptions caused by the freezing cold weather we saw recently across parts of the Southern US. Crude oil inventories in the US increased by 1.29MMbbls over the week, despite the fact that US crude oil production is estimated to have fallen by 1.1MMbbls/d to below 10MMbbls/d. This fall in production is smaller than the numbers that were reported during the freeze, with some suggestions back then that around 4MMbbls/d of production was offline due to the freezing conditions. Expected refinery operations were also badly affected from the winter storm, with utilization rates falling by 14.5 percentage points to 68.6%, which is the lowest level seen since May last year, and which saw crude oil input fall by 2.59MMbbls/d over the week.

On the refined product side, distillate fuel oil stocks fell by 4.97MMbbls over the week, given lower refinery throughput. However, despite lower refinery activity, gasoline inventories were largely unchanged, and this is a result of the demand hit that we saw over the week during the winter storm.

Looking ahead, given that crude oil production has made a fairly quick recovery, whilst refinery capacity is expected to take longer to return to normal, we should see further crude oil builds in the weeks ahead.

Metals

The bull run continued in the metal's complex, with the exception of gold which seems to be facing headwinds from rising yields. LME copper shrugged off an 8.5% rise in stocks, with the 3M price surging by more than 2%; spreads remained tight. In nickel and palladium, the markets were further fueled by supply disruptions at Norilsk Nickel's Oktyabrsky and Taimyrsky mines.

In the China market, there has been an increasing focus on the carbon neutrality goal, and investors appear to be bullish on the demand for metals that have an exposure to the energy transition, such as copper and aluminium. Discussions are heating up ahead of China's Two Sessions in early March, and our [China economist has looked at the top 5 priorities](#) ahead of the gathering, including ensuring net zero CO2 emissions by 2060. This week, the [State Council has called](#) for an effort to be made to work towards green, low carbon, and circular development.

However, the journey to net-zero could also have implications for the aluminium supply side. Recently, the local authority in China Inner Mongolia came up with a series of changes to local electricity rates, impacting several industries, including aluminium smelting, zinc smelting and ferrous alloys etc. The region accounts for around 9% of Chinese total aluminium capacity. The implication is that it would be impossible to see further capacity growth from the region. More broadly, this reinforces the expectation that China will stick to the capacity ceiling put forward a few years ago. Total capacity is inching towards the ceiling, and we will only see capacity migration within the country, with capacity moving to the southwest.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.