

The Commodities Feed: Oil makes a new high

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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.

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