

The Commodities Feed: Chinese oil demand concerns

Sentiment in the oil market remains fairly negative due to continued concerns over Chinese demand



Energy - China demand drop

Despite concerns over demand, the oil market is holding up relatively well. In its latest monthly market report, the IEA estimates that Chinese oil demand will fall by 420Mbbbls/d this year, which would be the first annual decline since 1990. Chinese demand has clearly suffered due to the zero covid policy that China continues to follow. Weaker Chinese demand was partly offset by the expectation that we will see a significant amount of gas to oil switching, given the high gas price environment. As a result, the IEA estimates that global oil demand will grow by 2MMbbbls/d this year and by 2.1MMbbbls/d in 2023, slightly below their previous forecasts. With Russian oil flows holding up better than expected, the IEA expects that the global market will be in surplus of close to 1MMbbbls/d in 2H22 and then more balanced over 2023 as the EU ban on Russian oil comes into full effect.

Weekly EIA data shows that US commercial crude oil inventories increased by 2.44MMbbbls over the last week. When SPR releases are taken into consideration, total US crude oil inventories declined by 5.97MMbbbls. Gasoline inventories declined by 1.77MMbbbls, whilst distillate fuel oil stocks increased by 4.22MMbbbls. This is the largest weekly increase in distillate stocks so far this year,

which would be welcome to the market given the tightness in middle distillates. Despite the increase, inventories are still around 30MMbbls below the 5-year average.

The EU's final proposal for intervention in the European energy markets was broadly in line with the draft proposal. First, the EU proposes that power demand should be cut, including a mandatory cut of 5% from selected peak hours, as well as aiming to reduce overall power demand by 10% until the end of March next year. Secondly, the EU wants to impose a temporary revenue cap on some power generators (renewables, nuclear and lignite) at EUR180/MWh. Finally, the EU also proposes a levy on excess profits from the oil, gas coal and refining sector.

Metals – risk-off sentiment weighs on the complex

Copper and aluminium prices fell yesterday as investors continue to digest the high CPI print from the US earlier this week, and what it could mean for Fed policy. Rising LME aluminium inventories only put further pressure on the market, with stocks increasing by 12,700 tonnes to 345,600 tonnes.

China is stepping up its efforts to boost its housing sector with more Chinese cities announcing credit support and subsidies for home purchases. This week, China's Evergrande Group removed most of its construction-project freezes as China enters its peak building season, which traditionally lasts until the end of October.

In precious metals, gold has unsurprisingly come under pressure over the course of the week-trading below US\$1,700/oz. Higher than expected US inflation data has reinforced expectations of another big interest-rate increase from the Fed.

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