The Commodities Feed: IEA demand revisions

Your daily roundup of commodity news and ING views

Source: Shutterstock

Energy

The oil market continued to edge higher yesterday, with ICE Brent managing to settle above US$56/bbl, while trading this morning has been fairly muted. The strength comes despite the IEA releasing its monthly oil market report, in which the agency slashed its demand growth forecasts for 2020. The IEA revised these down by 365Mbbls/d, leaving demand growth at just 825Mbbls/d for 2020- the lowest annual growth seen since 2011. Furthermore, the agency expects first quarter demand to decline by 435Mbbls/d year-on-year, which would be the first quarterly decline in more than 10 years. The numbers released yesterday by the IEA are more bearish than what we saw from the EIA and OPEC earlier in the week. Although saying that, given the strength seen in the market this week, it suggests participants were factoring in even larger demand hits as a result of COVID-19.

Latest data from Sublime China information also shows that independent refinery run rates in Shandong fell further over the week, from 50.33% to 47.82%. This highlights the run cuts that refineries are having to make due to poor fuel consumption.

Meanwhile, there is still little in the way of development when it comes to potential OPEC+ action, although the Algerian energy minister has said that OPEC+ could agree on a cut through until the end of June. To recall, the OPEC+ Joint Technical Committee made a recommendation to deepen current cuts by 600Mbbls/d, and extend the current deal through until the end of the year. If OPEC+ falls short of the recommendation when it does finally make a decision, investors could be left disappointed, even if the market does not need cuts of this magnitude over the second half of the year.

Finally, Bloomberg reports that Saudi Arabia and Kuwait have authorised the restart of the Wafra oil field in the Neutral Zone starting Sunday. Production in the neutral zone has been halted for several years now, and last year the two countries finally came to an agreement to resume production. The neutral zone can produce 500Mbbls/d, and any increase from here is unlikely to lead to higher OPEC supply, due to the current production cut deal.

Metals

Metal markets continue to trade around COVID-19 headlines, and after the initial sell-off amid demand fears, metals have strengthened with broader markets. Additionally, there is also likely the realisation of the threat to supply side dynamics. However, given still the high level of uncertainty, participants are likely to stay on the sidelines in the short term.

LME zinc saw a fair amount of strength yesterday, after reports that Henan Yuguang, China's leading lead and zinc producer, slashed its 300ktpa of zinc smelting capacity by half. This outweighed stocks inflows into LME warehouses over the last six days, which has taken inventory back to levels last seen in August 2019.

LME lead also strengthened, settling more than 2% higher yesterday. Opposite to its sister metal, zinc, lead's prompt curve has tightened up, and inventories remain low across the LME and Chinese market. The LME February 20-March 20 spread rallied to US$16/t backwardation on Thursday. The market seems a bit tight from a technical point of view, but fundamentally, lead has been caught in the middle of both weak supply and demand, and limited physical activity in the market. The market has been broadly bearish lead, given its secondary supply that has always been a swing factor, meanwhile lead continues to face the threat of demand destruction. However, the low inventory has raised the hurdle for the bearish narrative to play out.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com