The Commodities Feed: IEA sees weaker demand

Oil prices have edged higher despite the IEA revising lower its global demand growth forecasts. Instead, US macro data has provided support to the oil market

Energy – growing divergence between OPEC & IEA demand numbers

Oil prices edged higher yesterday. ICE Brent managed to settle 0.45% higher on the day and this strength has continued in early morning trading today. Slightly weaker than expected US CPI and weaker retail sales data were supportive, increasing expectations that the Fed may start cutting rates soon. The market is now fully pricing in a September rate cut, while a second cut is also fully priced in by December.

EIA weekly inventory data also provided a helping hand to the market. US commercial crude oil inventories fell by 2.51m barrels over the last week, which was more than expected, although less than what the API reported. The stronger-than-expected draw appears to have been driven by refinery activity. Refiners in the US increased their utilisation rates by 1.9pp over the week to 90.4%, the highest level since January. Despite stronger run rates, refined product inventories still fell. Gasoline and distillate stocks declined by a modest 235k barrels and 45k barrels respectively.

Implied demand for gasoline, distillates and jet fuel was also stronger over the week. However, the four-week average gasoline demand remains at its weakest levels for this time of year since 2013 (excluding 2020 due to Covid).

The IEA released its monthly oil market report yesterday. The agency revised lower its 2024 demand growth forecasts by 140k b/d from last month to 1.1m b/d year-on-year. This was largely due to weaker demand from Europe, while demand in 2025 is expected to grow by 1.2m b/d YoY. The difference in demand growth numbers between the IEA and OPEC stands out. OPEC is forecasting growth of more than 1.1m b/d higher than the IEA numbers, which clearly will lead to very different views on the outlook for the market.

In the European natural gas market, a trend which has become very clear is increased speculative activity despite fundamentals remaining bearish. The latest Commitment of Traders report shows that investment funds increased their net long in TTF by a little more than 6.7k lots over the week ending 10 May. This leaves them with a net long of 103.2k lots - levels last seen back in early February 2022. This large positioning does pose downside risk to the market, particularly if fundamentals remain bearish through the year.

Agriculture – Higher CS Brazil sugarcane crush

The latest fortnightly report from UNICA shows that sugar cane crushing in Centre-South Brazil stood at 34.6mt over the second half of April, compared to 21.4mt during the same period last year. Cumulative sugar cane crush for the season as of end-April rose 43.4% YoY to 50.6mt. Sugar production rose by 84.3% YoY to 1.8mt over the second half of April with around 48.4% of cane allocated to sugar production over the fortnight, higher than the 43.5% sugar mix in the same period last year. Cumulative sugar output so far this season stands at 2.6mt, up 65.9% YoY.

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