

The Commodities Feed: Oil demand boost but looser balance

The commodities complex has continued to benefit from expectations that the Fed could show more restraint at its next FOMC meeting following this week's weaker-than-expected CPI print. This saw ICE Brent briefly trade above US\$100/bbl yesterday, whilst IEA demand revisions and US supply disruptions provided further support



As a result of pipeline closures, six oil and gas fields in the Gulf of Mexico were shut

Energy - International Energy Agency boosts demand outlook

Both the IEA and OPEC released their monthly market reports yesterday. The market appears to have focused on the revisions higher than the IEA made to its demand growth forecasts. The agency increased its growth forecasts for 2022 by 380Mbbbls/d to 2.1MMbbbls/d. This increase is driven by the expectation that high natural gas prices will lead to gas-to-oil switching from the power sector. This will help ease some of the demand concerns that have plagued the market in recent weeks. However, the rest of the release was not overly constructive, with supply edging higher and OECD inventories growing over June. Russian oil supply is also not falling as aggressively as expected, with the IEA estimating that output in July was just 310Mbbbls/d below pre-war levels. It appears that Russian output will hold up better than expected at least until the EU ban on Russian oil and products comes into effect. As a result, the IEA now expects the oil market to be in surplus for the remainder of this year and into early next year.

As for OPEC, it revised its demand growth forecast for 2022 down by 260Mbbbls/d to 3.1MMbbbls/d, which is still higher than what the IEA expects. In addition, OPEC numbers also suggest that the market is adequately supplied over 3Q22, with the call on OPEC production over the quarter standing at 28.27MMbbbls/d, which is below the 28.9MMbbbls/d that OPEC pumped in July. Both the IEA and OPEC reports point towards an improvement in the supply/demand balance in the short term, which in the absence of significant supply disruptions should mean a limited upside in prices in the short term.

Also providing some support to the market yesterday were reports that two pipelines in the US Gulf of Mexico (GoM) were halted due to a leak at a booster station. As a result of these pipeline closures, six oil and gas fields in the Gulf were shut. The Mars and Amberjack pipelines which were halted can carry around 500Mbbbls/d of crude oil from the US GoM. The disruption is expected to be short-lived, with both pipelines expected to restart today (Friday).

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

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