

The Commodities Feed: Oil plunges

Broader market concerns and softer fundamentals have put significant pressure on oil prices. The key question is where is the floor for the market? This will largely depend on OPEC+ and the US



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Energy - Oil prices plunge

The pressure on the oil market continues. ICE Brent fell more than 4.8% yesterday to settle below US\$74/bbl, which took it to its lowest level since December 2021, though we are seeing a slight relief rally in early morning trading in Asia today. Broader market concerns related to the banking sector have weighed on risk assets, while oil is also seeing some soft fundamentals at the moment. The key question for the market is, "Where is the floor?" This will largely depend on OPEC+ and the US. Given the scale of the move, it is possible that OPEC+ decides to step in to stabilise the market, though until now, the group has been very quiet. As for the US, the government had previously said that it would look to refill its strategic petroleum reserves if and when WTI trades to around the US\$70/bbl region. WTI is trading below this level now and so we will need to see how the US responds, if at all.

Softer fundamentals have been driven by the fact that Russian supplies are still holding up better than expected. In its monthly oil market report, the IEA increased its Russian supply estimate by 300Mbbbls/d. The current surplus environment has also meant that inventories have reached an 18-month high and the market is expected to remain in surplus over 1H23. It is only over 2H23 where

stronger demand growth is expected to push the oil market into deficit. Over the full year 2023, the IEA expects global oil demand to grow by 2MMbbls/d, which will be largely driven by a recovery in Chinese demand and air travel.

Weekly data from the EIA shows that US crude oil inventories increased by 1.55MMbbls over the last week, slightly higher than the numbers reported by the API. For refined products, gasoline inventories fell by 2.06MMbbls, while distillate fuel oil stocks decreased by 2.54MMbbls. Overall the report was broadly in line with what the market was expecting.

Metals – China’s metals output shows signs of recovery

The latest official data from China shows that metals output rose in the first two months of the year following the reopening of the economy. Data from the National Bureau of Statistics shows that aluminium production rose 7.5% YoY to 6.7mt in Jan-Feb’23 despite power shortages in the southern part of China.

Bloomberg reports that China will again cut annual crude steel production in 2023. This will be the third year in a row for the government to mandate reduced output amid a push to reduce carbon emissions. The steel sector accounts for about 15% of national emissions. A ban on new steelmaking capacity is expected as part of the plan. Steel output in China climbed to 169 million tonnes in January and February, 5.6% higher than a year earlier, according to data from the China Iron & Steel Association.

The Australian unit of US aluminium producer, Alcoa, said output at its Portland smelter in Victoria will be reduced to around 75% amid instability and production challenges, effective immediately. The smelter had been operating at around 95% of its total capacity previously. The smelter is struggling with uncertainty and hurdles related to the production of rodded anodes necessary to transport electricity into the smelting pots, Alcoa Australia said in a statement. The plant has a total consolidated operating capacity of 358ktpa.

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