

The Commodities Feed: Stronger oil demand

Oil prices edged lower yesterday despite IEA expectations of stronger oil demand this year. Clearly, disappointing Chinese industrial production data weighed on sentiment



Energy - IEA sees stronger oil demand

Oil prices edged lower yesterday with ICE Brent settling below US\$75/bbl. Disappointing Chinese industrial production data for April sparked concerns about the China recovery story. Although, as [mentioned yesterday](#), the oil-specific numbers from China were actually quite supportive - with a sizeable YoY increase in refinery activity as well as record apparent demand. But as seen in recent weeks, macro developments appear to be the key driver for oil prices at the moment.

Yesterday's IEA oil market report was constructive with the agency revising higher its global oil demand growth forecasts for 2023 by 200Mbbbls/d to 2.2MMbbbls/d. This was due to stronger non-OECD demand, particularly from China. As a result of stronger demand and OPEC+ supply cuts through until the end of the year, the IEA sees a deficit of almost 2MMbbbls/d over 2H23.

Overnight, the API released US inventory numbers, which showed that US crude oil inventories increased by 3.69MMbbbls over the last week. This is quite different from the 2MMbbbls drawdown the market was expecting. Refined product changes were more supportive with gasoline and

distillate fuel oil stocks falling by 2.46MMbbls and 886Mbbls respectively.

Metals – China steel output falls

The latest numbers from the National Bureau of Statistics (NBS) show that monthly crude steel production in China fell 1.5% YoY and 3.2% MoM to 92.64mt in April as domestic steel producers reduced output amid falling margins. Mysteel's recent survey showed that only 26.4% of 247 steel mills were operating profitably at the end of April, down from 54.5% at the start of the month. Chinese primary aluminium production rose marginally by 0.8% YoY to 3.33mt in April, while cumulative output increased by 3.9% YoY to 13.3mt between January and April.

LME copper inventories rose for a seventeenth consecutive session by 6,950 tonnes to 83,825 tonnes yesterday - the highest since 13 January. Meanwhile, on-warrant stocks rose by 7,050 tonnes to 83,700 tonnes, while cancelled warrants declined to a record low of 125 tonnes as of yesterday indicating weakening demand. The cash/3m spread has also weakened in recent days, trading to a contango of more than US\$50/t earlier in the week.

Agriculture – France lowers corn planting estimates

France's agriculture ministry expects domestic corn plantings to drop by 7.6% YoY to 1.3m hectares (the lowest in over 30 years) in 2023, as local farmers are giving up on water-intensive crops during the summer season with increasing worries about water shortages. Plantings have also been slow with only around 59% of the crop in the ground as of 1 May, compared to 81% at the same stage last year.

Uncertainty in the wheat market continues following doubts over the extension of the Black Sea grain deal. The deal is set to expire on 18 May and Russia has threatened it will not extend the deal if its demands are not met. An extension to the deal is crucial if Ukraine is to hit its grain export targets for the 2023/24 season.

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