

The Commodities Feed: Tighter oil market ahead

IEA numbers released yesterday suggest a tighter oil market over the latter part of the year, while oil demand is expected to hit record levels this year. However, the supportive release from the IEA was overshadowed by weaker-than-expected macro data out of the US



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Energy - Oil demand forecasts edge higher

The oil market spent a large part of yesterday trading stronger, however, weaker-than-expected retail sales and manufacturing data from the US appear to have hit sentiment. And oil was unable to escape the broader downward pressure seen in markets.

API numbers released overnight show that US crude oil inventories increased by 7.6MMbbls last week, which was a bit different to the draw the market was expecting. As for refined products, gasoline stocks increased by 2.8MMbbls, whilst distillate inventories fell by 1.8MMbbls.

The IEA released its latest monthly oil market report yesterday, where oil demand growth forecasts for 2023 were increased from 1.7MMbbls/d to 1.9MMbbls/d, which would leave global oil demand at a record 101.7MMbbls/d in 2023. Some upward revisions were made to Chinese oil

demand following the reopening and this should leave China making up almost 50% of global demand growth. A large share of demand growth this year is also expected to be driven by jet fuel. As for supply, non-OPEC+ supply is expected to grow by 1.9MMbbls/d, but this will be partially offset by expectations of an 870Mbbls/d decline in OPEC+ supply, largely as a result of Russia. The IEA expects that the oil market will be in surplus over 1Q23, however, will start to tighten from 2Q23 onwards and with more pronounced deficits over 2H23.

The latest trade data from China shows that LNG imports in December totalled 6.6mt, which is the strongest since January 2022, however, still down around 13% YoY. This leaves total LNG imports for 2022 at 63.81mt, a decline of 20% YoY and the weakest annual imports since 2019. China should see a recovery in LNG demand this year given the change in Covid policy.

Metals - prices push higher

Base metals pushed higher on Wednesday amid continued optimism around China's reopening. Vice Premier Liu He told the World Economic Forum's annual meeting in Davos that China's pandemic prevention and control optimization was smooth, and the economy will likely recover to its pre-Covid growth trend this year.

The Antofagasta copper mine in Chile reported a decline of 10.4% YoY in its copper production last year as lower ore grades and drought in the country continued to disrupt mine operations. The company produced 646.2kt of copper last year, which is at the low end of its 640-660kt production guidance for the year. For 2023, output guidance was left unchanged at 670kt-710kt.

China's imports of unwrought aluminium and products rose 6.3% YoY to 258.7kt in December, the latest data from China customs shows. However, full-year 2022 imports reported a decline of 25.6% YoY to 2.4mt. On the exports side, alumina exports jumped 1,345% YoY to 60kt last month, while full-year exports rose 742.3% YoY to 1.01mt in 2022.

Agriculture – Chinese corn imports decline

The latest trade data from China customs shows that corn imports dropped 35% YoY (for an eighth consecutive month) to 870kt in December, while full-year imports fell 27.3% YoY to 20.6mt in 2022. Among other grains, wheat imports rose 14.5% YoY to 1.08mt last month, which leaves total wheat imports for last year at 9.96mt, up 1.9% YoY.

Reports of extreme drought conditions in Argentina have fueled supply worries. The rains that were forecast for the end of January are now expected to arrive weeks later, further dampening hopes for a revival of the current crop.

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