

The Commodities Feed: US crude oil inventory increases sharply

It was a mixed set of data for the oil market yesterday. The IEA report was fairly neutral with both supply and demand growth estimates increasing by 0.2MMbbls/d. The weekly report from the EIA was soft as US crude oil inventory increased by a huge 7.9MMbbls for the week



The IEA estimates that global demand growth will slow significantly by 2027/28 as electric vehicles replace the demand for gasoline and distillates

Energy – The IEA revises higher both supply and demand growth estimates

The International Energy Agency (IEA) released its latest monthly oil market report yesterday and its longer-term forecasts. The agency revised higher its demand growth estimates by 0.2MMbbls/d for 2023 and now expects global crude oil demand to increase by 2.4MMbbls/d to 102.3MMbbls/d. The agency estimates demand growth to slow down to 0.9MMbbls/d in 2024 as the switch to cleaner energy accelerates and overall energy demand stabilises. On the supply side, the IEA revised higher global supply estimates by around 0.2MMbbls/d for 2023 with global oil supply estimated to increase by 1.4MMbbls/d to 101.3MMbbls/d for the year. Most of the production growth comes from non-OPEC countries led by the US and Latin America. Global oil supply growth is expected to slow down to 1MMbbls/d in 2024.

For the longer term, the IEA estimates global demand growth to slow down significantly to less than 0.5% per year by 2027/28 as electric vehicles replace the demand for gasoline and distillates. By 2027/28, the IEA estimates oil demand growth to come only from LPG, ethane, or naphtha products (where substitution is limited) while demand for gasoline and diesel could fall. The IEA expects global major oil producers to maintain plans to build further capacity which will help keep the market well supplied in the longer term.

The weekly report from the Energy Information Administration (EIA) shows that US commercial crude oil inventories in the US jumped by 7.9MMbbls over the week to 467.1MMbbls. The market was anticipating a drawdown of 1.11MMbbls whilst the API reported a build of around 1MMbbls for the week. When factoring in the Strategic Petroleum Reserve (SPR) releases, total US crude oil inventories increased by around 6MMbbls as the SPR stocks fell by 1.9MMbbls for the second straight week. Meanwhile, oil inventories at Cushing, Oklahoma rose by 1.6MMbbls to 42.1MMbbls, the highest level since 2021. EIA said that US crude oil production was unchanged at 12.4MMbbls/d last week. As for refined product inventories, gasoline inventories rose by 2.1MMbbls, against a forecast for a build of 1MMbbls. Meanwhile, distillate stockpiles rose by 2.1MMbbls last week, quite in line with expectations for a build of 2MMbbls.

Metals – China steel production extends decline

The latest numbers from the National Bureau of Statistics (NBS) show that monthly crude steel production in China fell by 7.3% year-on-year and 2.7% month-on-month for a second consecutive month to 90.1mt in May 2023 as domestic steel producers continue to curb output amid falling margins. Meanwhile, cumulative output rose by 1.6% YoY to 444.6mt over the first five months of the year – overall growth was impacted by the lower production numbers in the April and May months. Among other metals, Chinese primary aluminium production rose by 1.1% YoY to 3.42mt in May 2023. Cumulatively, output rose almost 3.4% YoY to a total of 16.7mt over the first five months of the year. Chinese primary aluminium production might pick up in the coming months given the recent plans of Yunnan to bring back about 1mt of capacity from the end of next month.

Meanwhile, spot gold prices extended the downward rally for a fifth straight session and were trading marginally down this morning, following the latest comments from the Federal Reserve that more rate hikes are possible as the risks to inflation are still on the upside. [At its latest meeting](#), the Fed kept interest rates steady at 5-5.25%.

Looking at the ETF holdings, gold ETFs reported outflows of 12.9koz yesterday, (the 12th consecutive session of outflow) taking the total known gold ETF holding to 93.8mz as of yesterday, the lowest level since 8 May.

Agriculture – Coffee quality premium continues to fall

The spread between Robusta and higher-quality Arabica coffee dropped to around US\$59.7/lb this week (the lowest since December 2020), following the diverging fundamentals between the two types of coffee. Robusta coffee inventories in major producing regions such as Vietnam, Indonesia, and India are shrinking given the increased demand. Moreover, concerns about the potential impact of El Nino weather on crops in the nations near the Pacific have also been supporting robusta prices. The USDA projected a 5% YoY decrease in Brazil's Robusta coffee output for the season to 21.7m bags due to poor weather conditions. On the other hand, Arabica coffee prices have been under pressure due to the prospects of a massive crop from Brazil and weaker global

demand. The commencement of harvest in Brazil for the season, following two years of lower production due to bad weather, has added to the downward pressure on Arabica prices.

Author

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.