The Commodities Feed: Clouds still gathering

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Energy

After a brief rebound on Tuesday, ICE Brent prices retreated yesterday and have been trading weak in the morning session, as the World Health Organization declared the COVID-19 a global pandemic and travel restrictions were further tightened in Europe and the US. The US has suspended all travel from Europe (except for the UK) for one month to contain the virus spread. The travel restrictions and industrial slowdown have been weighing on global oil demand forecasts at a time when new supplies from OPEC are likely to hit the market next month after the OPEC+ discussions collapsed. The sharp weakness in the European market saw ICE Brent slipping below Dubai crude for the first time in nearly a decade.

OPEC released its monthly oil market report yesterday and expects oil demand to increase by only 0.06MMbbls/d for 2020 compared to its earlier estimates of 0.99MMbbls/d. The group has also revised down its estimates for OPEC crude oil demand to 28.2MMbbls/d for 2020, down from the 29.3MMbbls/d estimated in February. Meanwhile, OPEC countries have been preparing to increase output from April which will create a bigger surplus for the oil market in the second quarter.

In its short term energy outlook released yesterday, the EIA revised down its global oil demand growth forecast to 0.36MMbbls/d for 2020, sharply down from a 1.02MMbbls/d estimate made in February. On the supply side, the administration lowered US crude oil production forecasts for 2020 and 2021 as low oil prices are seen hurting the Capex plans of oil producers. The EIA now expects US oil production to increase 760Mbbls/d in 2020 and then decline by around 330Mbbls/d in 2021 compared to its earlier predictions of 960Mbbls/d and 350Mbbls/d of production growth for 2020 and 2021, respectively.

Finally, the weekly data from EIA shows that US crude oil inventory increased by 7.7MMbbls last week as crude oil exports dropped (down 0.7MMbbls/d WoW to 3.4MMbbls/d) whilst refinery utilisation continues to show seasonal softness and fell 0.5% week-on-week to 86.9%. On the other hand, gasoline and distillate inventory dropped by 5.0MMbbls and 6.4MMbbls, respectively, indicating relatively healthy demand for refined products in the domestic market until now, at least.

Metals

Base metals remain under pressure this morning with copper inching lower to US$5,406/tonne. The market has been looking for further central bank easing and global fiscal stimulus amid the Covid-19 outbreak.

On base metals and iron ore, there have been growing hopes for China's fiscal stimulus though there has been a lack of detail. A spokesperson from the National Development and Reform Commission (NDRC) says there won't be a large liquidity flood during the stimulus. She clarified that a CNY 25 trillion investment in 'new infrastructure' would be for several years rather than 2020 alone.

Physical market inventories are still climbing in China as consumers have yet to return to normal. According to the latest data from the Shanghai Metals Market, total aluminium social inventory has risen to 1.59 mln tonnes. In Japan, the first deal for aluminium premiums for 2Q20 was finaliaed at US$82/t; a drop of 1.2% when compared to the previous quarter and the lowest level agreed since 4Q16. Aluminium premiums in Japan for 2Q remain higher compared to the first quarter as this is the start of the Japanese financial year. The current decline in premiums could be justified with the uncertainty over demand following the global outbreak of the coronavirus.

As for copper, Antaike released data for refined copper production in China, which stood at 656kt in February compared to 657kt a month earlier, according to a survey report of 22 major smelters which accounts for over 80% of total domestic production capacity. The February production levels compare to Antaike's previous forecast of 600kt, with expectations that smelters would reduce output due to disruptions in demand and from the transport industry. For March, the group estimates refined copper production to rise to 690kt following a gradual recovery in overall demand.

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