The Commodities Feed: Demand recovery key for oil balance

Your daily roundup of commodity news and ING views

Energy

It is becoming more apparent that the demand recovery many were expecting in oil over the second half of the year was just too optimistic. A resurgence in Covid-19 cases, along with continued travel restrictions has meant that this demand recovery has stalled, or at least slowed. This does not come at a great time for the market, with OPEC+ supply set to increase, with the group easing cuts from the 1 August. US producers are also bringing back wells they had previously shut, with prices having recovered from their April lows. This suggests that we will see global supply starting to edge higher, and so given the disappointing demand, it raises the possibility that the market returns to building inventories in the months ahead, rather than drawing down stock, as initially assumed. Clearly, if this does materialise, it will call into question our current Brent forecast of US$50/bbl for 4Q20.

API numbers overnight showed that US crude oil inventories fell by 6.83MMbbls over the last week, significantly more than the market was expecting. On the product side, gasoline inventories increased by 1.08MMbbls, while distillate fuel oil stocks grew by just 187Mbbls. The gasoline number was more bearish than the market was expecting, which assumed a drawdown in gasoline inventories over the week. The more widely followed EIA numbers will be released later today, and as always it will be interesting to see how the numbers compare, as well as looking at how implied gasoline demand has performed over the week.

Metals

The market seems to be pricing in yet more accommodative policy from the US Fed, while the US$1 trillion Covid-19 relief bill which was proposed on Monday provided a further boost to the complex. For copper, following Zaldivar's avoidance of strike action, the latest reports are that supervisors at the Centinela mine accepted a final offer avoiding an imminent strike as well. Along with declining on warrant inventories, the LME Cash/3M spread remains at a US$13/t backwardation. Meanwhile, LME aluminium has followed its SHFE peer again, touching US$1,728 yesterday, levels that were last seen in early March, before most of Europe entered lockdown. Most observed indicators remain constructive for aluminium in the China market, and thus prices on SHFE have been on the rise. Had LME not followed SHFE higher this would have created some arbitrage opportunities for investors.

Turning to precious metals, having traded to a new record high of a little over US$1,980/oz early yesterday, spot gold prices eased over the remainder of the day, with some profit-taking as the market moved closer towards the US$2,000/oz level. The stronger USD yesterday would have also weighed on prices. However the outlook for gold remains constructive, given the current environment we are in, and we believe it is only a matter of time before the market hits the US$2,000/oz level. The latest data from the China Gold Association shows that China's gold consumption fell 38% YoY to 323t during 1H20, as rising domestic prices and the spread of Covid-19 hit consumption. The demand hit was more concentrated over 1Q20, with consumption over 2Q20 growing 17.5% QoQ.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com