The Commodities Feed: Demand revisions prove supportive for oil

Your daily roundup of commodity news and ING views

Energy

Oil prices received a boost yesterday, with ICE Brent settling more than 4.5% higher on the day, leaving it to trade well above US$66/bbl, a level last seen almost a month ago. USD weakness has been supportive for oil as well as the broader commodities complex. Although we appear to be seeing some profit-taking in early trading in Asia this morning.

Oil fundamentals have also been constructive, with the IEA yesterday revising higher its global demand forecasts for this year by 230Mbbls/d, given the revisions we have seen in global GDP forecasts recently. As a result the IEA now expects that 2021 global oil demand will grow by 5.7MMbbls/d YoY, after contracting by 8.7MMbbls/d last year. The agency does have a more constructive outlook for the second half of this year, estimating that almost 2MMbbls/d of additional supply will be needed over the latter part of the year in order to meet demand expectations. This should not be a problem for the market, given that OPEC+ still have a significant amount of spare capacity, even after taking into account the 2.1MMbbls/d of supply increases we will see from them between May and the end of July.

Weekly inventory numbers from the US were also supportive, with the EIA reporting that US crude oil inventories declined by 5.89MMbbls over the last week, which was more than market expectations, and also larger than the 3.61MMbbls draw the API reported on Tuesday. In addition, gasoline stocks increased by just 309Mbbls over the week, which was much less than the 5.57MMbbls build the API reported. Implied demand over the week also increased, with total product supplied increasing by 1.09MMbbls/d.

Agriculture

Sugar No.11 extended its gains yesterday, settling almost 2.8% higher, with supply concerns from Brazil and France. While the Center-South Brazil harvest is underway, drier-than-average weather could push sugar yields further down. After a record crop last year, expectations were that CS Brazilian sugar supply would fall moderately due to dry weather during the crop development period of October-March; however, continued lack of rains in the region means the risk of larger supply losses. In addition, a cold wave in France has led to some damage to the sugar beet crop there. The French sugar beet growers group, CGB estimates that current adverse weather could result in damage to more than 10% of the sugar beet crop. CGB estimates that between 30,000-55,000 hectares of beets have been damaged due to frost, out of a total beet area of 400,000 hectares. This suggests that the European sugar market is going to face yet another tight year.

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