The Commodities Feed: IEA demand revisions

Your daily roundup of commodity news and ING views

Energy

It has been a gloomy week for the oil market when it comes to demand. Both OPEC and the IEA took the opportunity to revise lower their demand estimates for this year. The revisions made by OPEC can be found in our note from yesterday. While for the IEA they now expect demand in 2020 to shrink by 8.4MMbbls/d, compared to their previous estimate for a decline of 8.1MMbbls/d. A resurgence in Covid-19 cases, continued remote working and a still very weak aviation sector were all cited as reasons behind the revision lower. For 2021, the agency is now expecting demand to grow by 5.5MMbbls/d YoY, which will obviously still leave it below 2019 levels. As for supply, the IEA expects non-OPEC supply to decline by 2.6MMbbls/d this year, before edging up by 0.5MMbbls/d next year.

While OPEC+ will likely feel uneasy about the pressure we have seen on the oil market over the last week or so, it is not expected that they will recommend or take further action to reduce supply when the Joint Ministerial Monitoring Committee meets tomorrow. Instead, we are likely to see the group once again put pressure on those who are still producing above their quota levels to comply.

Later today, the EIA will release its usual weekly inventory report, and expectations are that US crude oil inventories increased by a little over 2MMbbls over the last week. Therefore if we see a number similar to the 9.52MMbbls drawdown the API reported overnight, it would likely provide some immediate support to the market.

Metals

In base metals, all major metals traded marginally lower yesterday, while zinc remained the only metal to close higher. On the macro side, data released yesterday showed that Chinese retail sales rose 0.5% YoY, growing for the first time this year, while industrial production expanded 5.6% YoY in August. Looking at inventories, the latest data from the LME shows that copper exchange inventories jumped by 3.7kt (+4.9%) yesterday (the largest daily increase since 15th June) to total 78.6kt.

Turning to aluminium, and the US has decided to remove the 10% import tariff that it imposed on Canadian aluminium last month, given the threat of retaliatory tariffs. The US had imposed the duties with growing concerns over a surge of inflows from Canada. This latest development should weigh on US Midwest premiums, something we are already seeing.

Meanwhile, the latest data from China's National Bureau of Statistics continued to show a strong recovery in commodities output from China - with steel and aluminium producers once again hitting record production levels in August. The nation's ongoing construction-led recovery is primarily responsible for mills and smelters producing at record levels. Chinese primary aluminium output rose 6.6% YoY and 2.3% MoM to total 3.2mt in August, while cumulative aluminium output over the first 8 months of the year is up 2.3% YoY, to total 24.3mt. China's crude steel output increased by 8.7% YoY and 1.6% MoM to total 94.9mt.

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