

The Commodities Feed: IEA revises oil demand higher

Your daily roundup of commodity news and ING views



Energy

The oil market got a boost higher yesterday, following a more positive release from the IEA, where the agency revised higher its demand estimates from the previous month. The IEA now expects demand in 2Q20 to fall by 19.9MMbbls/d YoY, given the gradual easing in lockdowns that we are seeing over the quarter. This compares to their previous estimate of demand falling by 23.1MMbbls/d over the quarter. These revisions mean that the IEA now expects annual demand to fall by 8.6MMbbls/d YoY versus a previous forecast of a 9.3MMbbls/d decline YoY. The key risk to these numbers is a second wave of the Covid-19 outbreak, as countries lift their lockdowns. The IEA also pointed out the supply response to the low price environment, with already significant supply reductions seen. The agency expects that total supply in May will fall by 12MMbbls/d to 88MMbbls/d, as a result of OPEC+ production cuts and market-driven declines from producers outside the alliance.

Despite recovering demand and falling supply, the market is still in surplus. However, the scale of stock builds is significantly less than what was seen over April. This easing has meant that time spreads continue to strengthen, with the contango in the ICE Brent Jul/Aug spread narrowing to US\$0.45/bbl - levels last seen in early March, and quite a bit stronger than the US\$2.50/bbl

contango we saw back in late April. The fundamentals in the market are clearly improving. But we still believe that in the near-term, the upside is limited given that we are still in a surplus environment and as there is plenty of inventory for the market to digest.

Metals

The risk-off sentiment in broader markets weighed on the base metals complex yesterday with copper falling around 1%, while the likes of zinc and nickel came under further pressure. For copper, large inventory inflows into LME warehouses and reports of the restarting of mining operations in Peru have also added to the bearish sentiment. LME warehouses yesterday saw copper inflows of around 55.7kt. These large inflows made up for the withdrawals that the market had been seeing since mid-April, and pushed inventories to YTD highs of 282.7kt, with large volumes in Asia (+34kt) and Europe/US (+21kt). Meanwhile, some miners in Peru have restarted operations after getting approval from the federal government. The National Mining, Oil and Energy Society said that production will reach around 80% of capacity in the first phase of the restart.

For lead, French producer, Recylex, said yesterday said its Weser-Metall lead production plant in Germany, had filed for insolvency along with other units in the country. The plant produces around 105kt of lead per annum, which is around 5% of total European refined lead production. We think that the potential losses from this lead plant will have more of a significant impact on the ex-China lead balance.

Looking ahead, China will release its metals production data for April later today, and the numbers will be watched closely to gauge the pickup in industrial activity, and availability of raw material. Whilst smelters and refiners have resumed operations in China, raw materials remain in tight supply with treatment charges for both copper and zinc falling significantly over the past few months.

Daily price update

	Current	% DoD	ch	%YTD	ch		Current	% DoD	ch	%YTD	ch
ICE Brent (US\$/bbl)	31.13	6.65	-52.83			Spot Gold (US\$/oz)	1,730.3	0.82	14.04		
NYMEX WTI (US\$/bbl)	27.56	8.98	-54.86			Spot Silver (US\$/oz)	15.9	1.87	-11.08		
ICE Gasoil (US\$/t)	255	4.08	-58.43			LME Copper (US\$/t)	5,202	-0.42	-15.74		
NYMEX HO (Usc/g)	89	7.63	-55.88			LME Aluminium (US\$/t)	1,475	-0.34	-18.51		
Eurobob (US\$/t)	231	4.69	-59.97			LME Zinc (US\$/t)	1,957	-0.91	-13.86		
NYMEX RBOB (Usc/g)	91	7.25	-46.14			LME Nickel (US\$/t)	12,072	-1.49	-13.93		
NYMEX NG (US\$/mmbtu)	1.68	4.02	-23.21			CBOT Corn (Usc/bu)	320	0.00	-17.41		
TTF Natural Gas (EUR/MWh)	5.27	2.85	-56.31			CBOT Wheat (Usc/bu)	511	0.00	-8.64		
API2 Coal (US\$/t)	42	0.72	-24.01			CBOT Soybeans (Usc/bu)	835	-0.09	-11.43		
Newcastle Coal (US\$/t)	55	0.00	-20.20			ICE No.11 Sugar (Usc/lb)	10.46	1.95	-22.06		
SGX TSI Coking Coal (US\$/t)	119	0.35	-15.95			ICE Arabica (Usc/lb)	105	1.30	-19.12		
SGX Iron Ore 62% (US\$/t)	87.69	-0.54	-3.98			ICE London Cocoa (GBP/t)	1,958	-1.66	7.64		

Source: Bloomberg, ING Research

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