

# The Commodities Feed: Large US product build

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## Energy

Oil has come under pressure this morning following a fairly bearish EIA inventory report yesterday. Whilst US crude oil inventories fell by 5.24MMbbls over the last week, the build in product inventories more than offset the crude decline. Refined product stocks increased by 20.71MMbbls over the week, with gasoline, distillate fuel oil and propane inventories growing by 7.05MMbbls, 4.41MMbbls, and 5.5MMbbls respectively. This leaves total US inventories (crude and product) increasing by almost 15.5MMbbls over the last week. The gasoline increase has meant that inventories are now not too far off from the 5-year average, having been near a 5-year low previously. A key factor behind the large product builds was the fact that refiners increased their utilization rates by 2.6 percentage points over the week to 91.3%, which is the highest rate seen from US refiners since January last year. While refiners increased output, implied fuel demand was weaker over the week, with total product supplied falling by 1.43MMbbls/d. Implied gasoline demand declined by 666Mbbls/d, taking it back below the 9MMbbls/d mark. However, as we move deeper into the summer driving season, we would expect to see demand trending higher.

Moving on, and Iran has some ambitious targets, with it reported that the country plans to

increase oil output to 3.3MMbbls/d within a month after US sanctions are lifted, which would then be followed by output increasing to 4MMbbls/d within three months. At the moment, Iran is pumping at around 2.4MMbbls/d, which suggests these targets will be a stretch. We are assuming that Iranian output returns to 3MMbbls/d by the end of this year, whilst it appears market expectations range from 500Mbbls/d to 1MMbbls/d. Clearly, the return of this supply will be dependent on the US lifting sanctions against Iran, and for that, we would need to see the US rejoining the Iranian nuclear deal. Discussions related to the deal continue this week.

The latest data from India's Petroleum Planning & Analysis Cell shows that fuel demand in India over May totalled 15.1mt, which is 11% lower MoM, and also down 1.5% YoY. This weaker demand reflects the impact from the most recent wave of Covid-19 seen in India over April and May. However, with Covid-19 cases having peaked and some regions easing restrictions, fuel demand should already be in recovery mode.

Finally, later today OPEC will release its monthly market report, which will include production numbers for the group for the month of May. In addition to this, the report will include OPEC's latest outlook for the remainder of the year. This will be followed by the IEA's oil market report on Friday, where the agency will also share its latest view on the market.

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