# The Commodities Feed: Oil demand growth numbers

Your daily roundup of commodity news and ING views

## Energy

The oil market couldn't hold onto the strength that we saw for much of yesterday, with ICE Brent closing lower on the day, and settling below US$54/bbl, while NYMEX WTI settled below the US$50/bbl mark for the first time since early January 2019. Early morning trading today has started on a positive note once again, but the risk is that we see a similar trend to previous days, where the strength fizzles out as the day progresses. Yesterday's downward pressure comes despite the likelihood of deeper cuts from OPEC+ growing. The Joint Technical Committee (JTC) met in Vienna yesterday, and proposals reportedly included increasing cuts anywhere between 500Mbbls/d and 1MMbbls/d. The obstacle (as is the case most times) appears to be Russia, which generally has a more relaxed approach when it comes to cutting output. While we may hear plenty of noise around cuts from OPEC+, the JTC cannot make the decision, this would require agreement between all members, hence the need for a meeting sometime in February.

Reportedly, OPEC numbers suggest that the coronavirus outbreak could lead to around a 400Mbbls/d drop in demand growth for about 6 months, so basically 200Mbbls/d over the course of the full year. This is where the uncertainty lies, with estimates of the impact on demand varying significantly. Some are looking at a hit of as little as 100Mbbls/d for the full year, whilst some worst-case scenario estimates suggest that we could see as much as 1MMbbls/d of demand growth lost. The longer the spread of the virus lasts, the more likely we start to move closer towards a worst-case scenario. However if we assume that OPEC numbers are correct, and then factor in the supply losses we are seeing from Libya at the moment, and assume that these last through until the end of Q1, 500Mbbls/d of additional cuts should be almost enough to balance the market over Q1, whilst over Q2 we would likely need to see current cuts of 1.7MMbbls/d rolled over through until at least the end of June. Another scenario would be to have a cut of 500Mbbls/d from 2Q20 through until the end of the year, which would mean the Q2 surplus would be offset by a deficit over 2H20.

On the demand side, we will have to wait and see when cases peak. Here in Singapore, we had back to back days of no new reported cases, but this was brought to an abrupt end yesterday, with the number of cases jumping by 6 to total 24. More importantly, 4 of these new cases were a result of local transmission, rather than imported cases. As our Asian chief economist pointed out yesterday (and tells me repeatedly), we are at a critical point, where in the next week or two we should get a better idea on whether the virus has been largely contained to China or whether it really is going to go global.

Finally, US inventory numbers put further pressure on the oil market late yesterday, with the API reporting that US crude oil inventories increased by 4.18MMbbls over the week, while the market was expecting US inventories to have increased by around 3MMbbls over the week, according to a Bloomberg survey. The market will pay more attention to the EIA weekly release which will come out later today, and a number similar to the API would mean the largest increase in oil inventories since November.

## Metals

After the relentless sell-off over the past two weeks, LME metal prices bounced back yesterday. On the macro side, Beijing signalled support measures to cushion economic growth, providing some comfort to the market. In the short-term, we may see the market become more volatile as participants re-position given the recent price collapse. Consumers may jump in to lock in costs at these lower levels, but the market will still likely face downward pressure from other investors amid the rapid rise of coronavirus cases. While we have highlighted in previous notes the impact that shutdowns in China could have on domestic supply chains, we are also starting to see an impact on global supply chains, with a Korean car manufacturer having to shut down some assembly lines in Korea, due to a lack of parts from China.

Turning to ferrous metals, and a report by China's Iron & Steel Association (CISA) shows that 18 mills in Shaanxi, Shanxi, and some other provinces could cut output by 55kt/day (the equivalent of c.20mtpa of annual capacity) until the logistical situation in China improves and industrial activity restarts. The curtailed capacity represents nearly 30% of these mills' total capacity and reflects the potential impact on iron ore demand within the country if other mills also face similar issues. Iron ore port inventory data has been unavailable in recent weeks due to Lunar New Year holidays; however, a preliminary report from Mysteel shows that iron ore stocks have been piling up at port warehouses due to lower intake from steel mills.

Finally, stronger gold prices have been weighing on physical demand of the precious metal in its biggest market, India. Media reports suggest that the country's gold imports fell more than 50% YoY to total 21.7t in January, after falling 14% for the full year 2019. A slower economy, higher import duties, a weaker INR and stronger prices in the global market have been detrimental for India's price-sensitive gold market. China's gold demand could also take a strong hit in 1Q20 due to ongoing virus concerns and slower economic activity. Despite this poorer demand, it has been investor demand which has been supportive for gold prices, with total known ETF holdings reaching a record 82.96moz, with YTD inflows of around 1.5moz.

## Daily price update

| | Current | % DoD ch | %YTD ch |
|---|---|---|---|
| ICE Brent (US$/bbl) | **53.96** | -0.90 | -18.24 |
| NYMEX WTI (US$/bbl) | **49.61** | -1.00 | -18.75 |
| ICE Gasoil (US$/t) | **492** | 1.71 | -19.91 |
| NYMEX HO (Usc/g) | **158** | 0.38 | -21.91 |
| Eurobob (US$/t) | **500** | -1.56 | -13.35 |
| NYMEX RBOB (Usc/g) | **144** | -2.07 | -15.00 |
| NYMEX NG (US$/mmbtu) | **1.87** | 2.91 | -14.48 |
| TTF Natural Gas (EUR/MWh) | **9.37** | 1.68 | -22.28 |
| | | | |
| API2 Coal (US$/t) | **58** | 2.11 | -4.68 |
| Newcastle Coal (US$/t) | **69** | 3.74 | 0.43 |
| SGX TSI Coking Coal (US$/t) | **146** | -1.40 | 3.43 |
| SGX Iron Ore 62% (US$/t) | **80.79** | 3.56 | -11.53 |

| | Current | % DoD ch | %YTD ch |
|---|---|---|---|
| Spot Gold (US$/oz) | **1,552.9** | -1.51 | 2.35 |
| Spot Silver (US$/oz) | **17.6** | -0.50 | -1.44 |
| LME Copper (US$/t) | **5,618** | 1.68 | -9.01 |
| LME Aluminium (US$/t) | **1,686** | -0.03 | -6.85 |
| LME Zinc (US$/t) | **2,167** | 0.96 | -4.64 |
| LME Nickel (US$/t) | **12,830** | 0.83 | -8.52 |
| | | | |
| CBOT Corn (Usc/bu) | **382** | 0.92 | -1.42 |
| CBOT Wheat (Usc/bu) | **557** | 0.32 | -0.27 |
| CBOT Soybeans (Usc/bu) | **880** | 0.29 | -6.73 |
| ICE No.11 Sugar (Usc/lb) | **14.71** | -1.21 | 9.61 |
| ICE Arabica (USc/lb) | **98** | 0.26 | -24.33 |
| ICE London Cocoa (GBP/t) | **1,928** | -0.36 | 5.99 |

Source: Bloomberg, ING Research

## Author

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

### Disclaimer