The Commodities Feed: Peak oil demand still ahead of us

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Energy

Yesterday wasn't a great day for oil, with Brent settling back at US$68/bbl, making it the fourth consecutive down day for the market. The IEA's monthly market report offered little support. The IEA belief is that despite the rise in oil prices, we are not at the start of a new oil super-cycle. They add that oil inventories are still comfortable, and remain above the 5-year average, with OECD industry stocks at the end of January estimated to be 110MMbbls higher YoY. In addition to this, the agency sees a large amount of spare capacity as a result of the roughly 8MMbbls/d of output that OPEC+ are holding from the market.

The report revised its demand growth estimates higher by 100Mbbls/d due to colder weather in 1Q21 across North Asia, Europe and the US, and demand is now expected to grow by 5.5MMbbls/d this year. However, this still leaves total demand below pre-Covid-19 levels, and the IEA forecasts that oil demand will only return to 2019 levels by 2023.

The IEA also released its Oil 2021 report yesterday, which included forecasts all the way through to 2026. The agency still believes that peak oil demand is ahead of us, forecasting that oil demand will reach 104.1MMbbls/d in 2026, up 4.4MMbbls/d from 2019 levels. However, the numbers suggest that the IEA feels that Covid-19 will have an impact on long term demand, with 2025 demand estimated at 103.2MMbbls/d, which is 2.5MMbbls/d lower than the forecast from last year.

Finally, weekly US inventory numbers from the EIA were more bearish than the API numbers from the previous day suggested. Crude oil inventories increased by 2.4MMbbls, which pushed total commercial crude oil inventories above 500MMbbls for the first time this year. Refiners continue to bring back capacity after the freezing conditions in February, with utilisation rates increasing by 7.1 percentage points over the week, to leave them at 76.1%. However, this is still below the 83.1% we saw ahead of the big freeze. In addition to lower than usual refinery activity, crude oil exports remained below 3MMbbls/d for the fourth consecutive week due to a narrow Brent-WTI spread.

On the product side, the EIA reported inventory builds in gasoline and distillate fuel oil of 472Mbbls and 255Mbbls respectively. These are the first product builds that we have seen since the weather disruptions in February, and driven by a return of refining capacity, along with stronger refined product imports. In fact, gasoline imports reached their highest levels since last summer, given the tightness that we have seen in the domestic market.

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