

The Commodities Feed: Re-balancing the oil market

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Energy

The oil market reacted positively to the IEA report yesterday, with Brent trading back above US\$40/bbl. The agency reported that OECD inventories at the end of April stood at a little over 3.1b bbls, whilst preliminary data suggest record inventories in early June. Meanwhile, demand has also performed better than expected, and the agency revised higher its demand estimates by 500Mbbbls/d, which now suggest demand falling by 8.1MMbbbls/d YoY. Then unsurprisingly, demand is expected to recover in 2021, with it estimated to grow by 5.7MMbbbls/d YoY. This obviously will still leave it below 2019 demand levels, but reflects expectations that it will take a considerable amount of time for air travel to return to normal levels. Moving to supply, and in May, global output is estimated to have fallen by 11.7MMbbbls/d, whilst over full-year 2020, the IEA expects that global supply will decline by 7.2m b/d YoY. Then in 2021, output is expected to make a modest recovery, rising by 1.7m b/d. Obviously the assumption around here is that the OPEC+ deal continues and that we continue to see US output declining in 2021. Overall, this means that the global oil market is set to transition into deficit over 2H20, and will remain in deficit over the whole of 2021, allowing it to draw down the record stock levels built over the first half of this year.

The API yesterday reported that US crude oil inventories increased by 3.86MMbbbls over the last

week, which is quite a bit more than the marginal build that the market was expecting. On the product side, it was another week of builds, with gasoline and distillate fuel oil inventories increasing by 4.27MMbbls and 919Mbbls respectively. The more widely followed EIA numbers will be released later today. We will also get OPEC's latest monthly report, which will provide production estimates for May, and their outlook on the market for the remainder of the year.

Metals

Metals have been caught between hopes and fears. On Tuesday, the Fed's latest move in bond buying compounded with Trump's promise on a US\$1tr infrastructure plan did help market sentiment for most of the day. However, worries of a second wave of Covid-19 does put the recovery on tenuous ground.

LME metals pared some of the gains before the London close, after news that Beijing will shut schools as a precautionary measure, following a pickup in Covid-19 cases. A large part of the rally seen in metals since April has been a result of the demand recovery out of China, and so clearly metals markets will be watching closely how this situation evolves. In a best-case scenario, Beijing would be able to contain the virus within the city, without it spreading to neighbouring provinces, where more industrial clusters are located.

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