

FACTBOX: Commodity markets weaken with equities as coronavirus spreads

BY S&P GLOBAL PLATTS

Commodity markets continued to weaken Friday, along with a dramatic fall in equities, on demand concerns stemming from the spreading coronavirus. The World Health Organization declared the virus a “public health emergency of international concern.” US Department of Health and Human Services declared an emergency, which will require 14-day mandatory quarantine for all US citizens returning from Hubei Province, China, starting Sunday, according to media reports.

With the number of confirmed cases rising to nearly 10,000 globally, the virus claiming at least 213 lives, and airlines halting flights to China, the Dow Jones Industrial Average fell over 600 points Friday, wiping out January’s gains. Key international airlines have suspended flights into and out of China due to the coronavirus. As a result, jet fuel demand is expected to fall. Business and construction activity is currently slated to restart February 10 in Beijing and Hunan, Zhejiang and Hebei provinces, but in cities in Shanxi, Tianjin and parts of Sichuan, a restart date has yet to be announced.

PRICES - OIL

- Dated Brent was assessed by S&P Global Platts at \$56.67/b Friday, down \$1.10 on the day, and down \$7.75, or 12%, since January 20.
- US spot jet fuel prices have weakened on news of the flight curtailments. The Gulf Coast benchmark jet was assessed by Platts at NYMEX March ULSD futures minus 14.20 cents/gal, down 1.70 cents on the day, and the lowest since January 16, 2018.
- Los Angeles jet fuel prices fell 7.75 cents to be assessed at March ULSD futures minus 5 cents/gal, the lowest since June 21, 2019.
- The Singapore jet crack spread against Brent ended Friday at \$8.46/b, down from from \$11.34/b January 20, Platts data shows.
- The Rotterdam jet fuel crack against Brent ended Friday at \$11.38/b, down from \$14.17/b January 20, while the US Atlantic Coast crack ended at \$10.55/b, down from \$14.18/b January 17.

METALS

- The London Metal Exchange three-month copper price ended \$47 lower Friday at \$5,587.50/mt. That was down \$683, or 11%, from January 20. Copper is often seen as a barometer for global economic health.
- S&P Global Platts assessed the 62% Fe Iron Ore Index at \$82.55/dry mt CFR North China Friday, down 10.3% on the week.

SHIPPING

- Freight for VLCCs on the USGC-China route has dropped 18% over the last week, falling to levels not seen since end-September.
- The USGC-China VLCC (basis 270,000 mt) route was last assessed Thursday at lump sum \$8 million. Freight had not been assessed under the \$8 million mark since September 25.
- It definitely does not help, the lack of Chinese demand,” a VLCC shipbroker said. “There is more incremental tonnage available in the Atlantic.”

TRADE FLOWS - OIL

- FKey international airlines including Delta, British Airways, Lufthansa, American Airlines, United Airlines, Swiss International Air Lines and Austrian Airlines, suspended or reduced flights due to the outbreak.

- Platts Analytics worst-case scenario shows a drop of 2.6 million b/d in oil demand in February, and a 2 million b/d decline in March.
- Platts Analytics best-case scenario shows a drop of 900,000 b/d in oil demand for February, and a 650,000 b/d decline in March.
- Platts Analytics best-case scenario shows global jet fuel demand declining by 618,000 b/d in February, while its worst-case scenario shows a decline of 1 million b/d.
- In its best-case scenario, Platts Analytics assumes an almost complete shutdown of Hubei province's transport, but - significantly - little else in China's road transport, for February and March. It also assumes the aviation business will be severely curtailed in China and, to a lesser extent, the rest of Asia over the same period.
- In its worst-case scenario, Platts Analytics assumes the whole of China's road transport system will be vastly reduced, with up to 23% of passenger and freight trips being canceled across the country in February. It also assumes China's aviation demand will drop by an unprecedented 50% in the same period.
- The jet market is currently subject to a number of bearish factors. It is in a period of low demand and the upcoming refinery turnaround schedule that usually tightens the market is expected to be smaller and more spread out than usual, limiting its bullish impact.
- The US is well supplied with jet fuel. Inventories at 42.79 million barrels the week ending January 24 were 1.9 million barrels above the five-year average, US Energy Information Administration data shows.
- Oil product stocks in the Middle Eastern hub of Fujairah climbed to a five-week high Monday, led by a surge in jet fuel and other middle distillate stocks, data released Wednesday by the Fujairah Oil Inventory Zone showed.
- Industry experts and market analysts have recently revised down their forecasts for China's refinery throughput in February and March by 600,000 b/d to 1 million b/d, with crude oil imports set to slow down accordingly in April and May.
- OPEC is in discussions to bring forward its scheduled March 5-6 meeting as the oil market continues to be buffeted by the impacts of the coronavirus outbreak. OPEC is considering deeper oil-production cuts, or extending its current supply curbs beyond their March expiry.

LNG

- If reduced industrial activity across Hubei Province extends through the end of February, it would reduce Chinese LNG demand by 5-7% relative to the S&P Global Platts Analytics base case. That would drive Chinese LNG imports lower.
- While coal to gas switching in the residential sector has played a large role in China's recent LNG demand growth, the driving engine behind the country's gas demand remains the industrial sector.
- Between 60% and 70% of China's total LNG imports are ultimately destined to end users in the industrial sector, depending on the degree of weather related demand.
- Hubei Province sources regasified LNG from Shanghai, thus Shanghai's LNG imports can be used as a proxy for LNG imports in the affected region.

METALS

- Ports in Hubei province, a major Chinese steelmaking hub, have been closed, hampering both iron ore imports and steel exports, and many cities have delayed a restart of construction until further notice.
- China is the world's biggest steelmaker, producing 996.3 million mt of crude steel in 2019, up 8.3% on 2018 and accounting for 53.3% of global output, a growing share, according to the World Steel Association.
- China's struggling auto sector is likely to take a further hit from the effects of the coronavirus.
- China's auto sector accounts for around 6% of the country's total steel consumption, Platts estimates. The China Iron & Steel Association has forecast that China's total steel consumption will grow by 2% this year to just under 890 million mt.
- The association has predicted that China's passenger car production and sales will decline by 2% this year, which would mark the third consecutive year of declines in the sector
- A temporary fall in Chinese steel production and demand due to the outbreak and related restrictions could lead to higher steel production elsewhere and a buildup of inventories that may weigh down global steel prices, according to analysts at brokerage firm Jefferies.
- A South Korean mill source said production cuts may help Chinese mills maintain steel prices.
- China is the world's biggest iron ore consumer, taking more than half of seaborne supplies.
- Iron ore prices have fallen, but could still be bolstered by any supply side disruptions. Some Chinese steelmakers are reportedly reducing output by up to 20% in February due to transport difficulties and stalled construction projects.

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AGRICULTURE

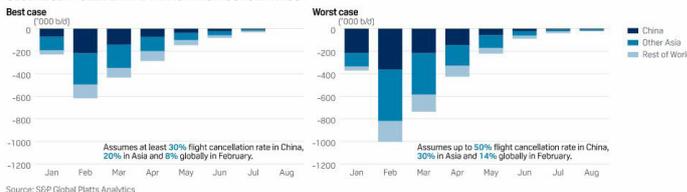
- The virus has been bearish for US agriculture markets, as they were already uneasy about the enforcement mechanism in the US-China trade Agreement.
- Restricted travel is having a bigger impact on energy than agriculture, although food supplies are starting to dwindle given the lack of transport.
- Analytics expect longer-term effects should be negligible as China's hog herd is in the midst of being restored. ■

JET CRACK SPREADS vs BRENT SLIDE



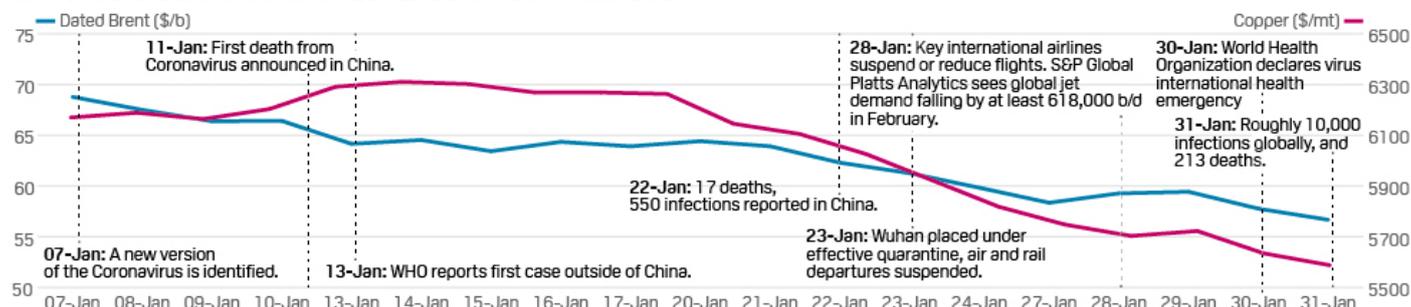
Source: S&P Global Platts

GLOBAL JET FUEL DEMAND IMPACT FROM CORONAVIRUS



Source: S&P Global Platts Analytics

HOW CHINA'S CORONAVIRUS INFECTED COMMODITY MARKETS



Source: S&P Global Platts