

FACTBOX: Commodity prices continue to fall as coronavirus spreads

BY S&P GLOBAL PLATTS

The coronavirus outbreak in China continued to push commodity markets lower Monday as the number of cases has risen and spread across the globe, sparking concerns of lower demand growth. In oil, Dated Brent crude prices fell \$1.48 to \$58.35/b Monday, according to S&P Global Platts assessments. That was down \$6.07, or 9.4%, since January 20. In metals, the London Metal Exchange three-month copper price ended \$174.5 lower Monday at \$5,748/mt. That was down \$515, or 8.2%, from January 20. Copper is often seen as a barometer for global economic health.

In contrast, precious metals have held up as investors increase allocation to safe-haven assets, with London gold closing at \$1,580.10/oz, Platts assessments show. The Chinese government has extended the Lunar New Year holiday period, closing businesses in key provinces and suspending air and rail travel in a bid to contain the virus. The virus has now sickened 2,900 people globally, with cases emerging in the US and Europe, while the death toll across China has climbed to 82, according to CNBC. S&P Global Platts Analytics is forecasting a drop of 200,000 b/d in oil demand for the next two to three months, reflecting roughly 15% of the expected oil demand growth in 2020. If the coronavirus is as bad as the Sudden Acute Respiratory Syndrome (SARS) outbreak in 2003, oil demand could fall by 700,000-800,000 b/d, reflecting more than half of the expected demand growth for 2020, according to Analytics.

"A SARS-like virus spreading out of China would damage global oil demand to a greater extent than it did in 2003, due to Asia's much heavier weight in current global demand," Platts Analytics said. OPEC members are considering deeper production cuts, or extending their existing deal, in response to a slump in oil prices, according to a source in the group. "The next two weeks are very critical for not only the oil market but the global economy," the OPEC source said Monday, speaking on condition of anonymity.

PRICES

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- In metals, the London Metal Exchange three-month copper price ended \$174.5 lower Monday at \$5,748/mt. That was down \$515, or 8.2%, from January 20.
- Crude prices tumbled in early 2003 on the demand impacts of SARS. ICE Brent futures fell below \$24/b in April 2003 from roughly \$34/b in early March.
- However, it is worth pointing out that crude futures were already under downward pressure following the September 11, 2001 attacks in the US, and other terrorist attacks in 2002. Brent futures spent most of 2002 below \$30/b.
- Jet crack spreads against Brent crude have weakened in recent days. The Rotterdam jet/kero crack ended Monday at \$12.18/b, down from \$14.17/b January 20, S&P Global Platts data shows. The US Atlantic Coast jet crack ended Monday at \$11.44/b, down from \$12.99/b January 21.
- The Singapore jet/kero crack spread ended Friday at \$10.98/b, down from \$11.34/b January 20. Singapore was closed Monday.

TRADE FLOWS

- S&P Global Platts Analytics is forecasting a drop of 200,000 b/d in oil demand for the next two to three months, reflecting roughly 15% of the expected oil demand growth in 2020.
- Platts Analytics estimated that in a "worst-case scenario" where Wuhan coronavirus is as deadly and contagious as the 2003 SARS pandemic, global jet demand could fall by 700,000-800,000 b/d.
- The coronavirus currently has a mortality rate of 3%, below the 10% rate for SARS, and governments "have better technologies to contain the spread

of the virus," according to Platts Analytics. So it is likely that the Wuhan coronavirus could lower global jet demand by 50,000-150,000 b/d for the next two months.

- Platts Analytics estimated that the SARS virus reduced global oil demand, led by jet fuel, by 230,000 b/d for around six months in 2003, primarily in the second quarter. However, global jet fuel demand has since grown by 47% to 7.11 million b/d, with "growth heavily concentrated in China, Southeast Asia, and South Asia."
- The Lunar New Year, which falls in either late January or early February each calendar year, is a major national holiday that marks one of the country's busiest travel seasons, when gasoline and jet fuel consumption typically spikes.
- China's apparent demand for jet fuel rose 7.3% year on year to 898,000 b/d during the first quarter last year, Platts Analytics' data showed. Apparent demand for the fuel in mainland China dropped around 35% on the year to 131,000 b/d in May 2003, Platts Analytics' data showed.
- The SARS outbreak reduced annual traffic of Asian airlines by 8% in 2003, compared to only 3.7% for North American carriers, implying that Singapore jet fuel prices weakened more than the European and US prices.
- China's gasoline demand may also register a year-on-year decline in Q1 as the central Hubei province, where Wuhan is located, is considered one of the major transportation hubs along the Changjiang River.
- 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.
- OPEC is considering deeper oil production cuts, or extending its current supply curbs beyond their March expiry, if the coronavirus outbreak spreads further, according to a source from the organization.
- The coronavirus is expected to be bearish for most metals. "For metals and bulk commodity demand, we see a slightly weaker February-March than may have been anticipated, but limited changes to expectations for the year as a whole," BMO Capital Markets analysts said Monday. ■