

# FACTBOX: Coronavirus fear infects commodity markets as prices tumble

BY S&P GLOBAL PLATTS

The global economic impact from the spread of coronavirus beyond China has hit commodity markets hard this week, with concerns over demand at the forefront. OPEC members are considering making steep reductions to production in response to the crisis, which has led to S&P Global Platts Analytics reducing its global demand growth forecast for 2020 by 470,000 b/d. Platts Analytics describes the spread of the virus as “arguably the biggest risk to global growth since the Great Recession.” The following are key facts on the impact for a broad range of commodities from oil and jet fuel through to sugar, rice and copper.

## TRADE FLOWS

China is the biggest demand driver for a number of commodities, but the rapid international spread of the virus has raised concerns over global economic growth. Platts Analytics has warned its base case for 2.93% global growth will almost certainly have to be revised in March, reflecting pressure on trade flows.

- Easy Jet – one of Europe’s largest regional airlines – said Friday it was cancelling some scheduled flights and warned travel demand had slowed in a hit to the jet fuel market. IAG, Lufhansa and Air France also warned about the impact.
- According to S&P Global Platts data, the physical FOB FARAG jet barge crack versus Dated Brent dropped 24 cents/barrel on the day to \$6/b Thursday, the lowest physical jet crack since August 19, 2009, when it was assessed at \$5.96/b.

OPEC and its allies may have to cut another 1 million b/d of output, adding to their existing 1.7 million b/d of production cuts, to head off a steep decline in price.

- OPEC has said it is monitoring the health situation in Vienna after cases of the virus were reported. The group is due to meet March 5-6 in the Austrian capital to decide on a response.
- Iran has the largest number of reported cases of the coronavirus in the Middle East, but other oil producers in the region have also been affected.

Asian slowdown is shifting product flows into Europe, while there are signs rice buyers are stockpiling.

- Market participants expect more ultra-low sulfur diesel from Asia to be shipped to Northwest Europe, while diesel demand is expected to fall in Europe due to quarantine in areas affected by the virus.
- Chinese bulk rice buyers have cancelled some recent orders from Pakistan due to logistical issues caused by the outbreak, sources told Platts. However, other buyers such as Malaysia have entered the market to replenish rice stocks and ensure sufficient supply in case of further issues.

## PRICES

Crude has taken the brunt of the commodity price impact, but a range of resources across the supply chain are now testing multi-year lows. Brent front-month crude futures have tumbled more than 25% since coronavirus outbreak started in early January, to trade below \$51/b on Friday.

- Both physical and paper jet fuel cracks against Platts Dubai crude benchmark tumbled below the psychological support level of \$10/b, falling \$1.66/b and \$1.57/b day on day to \$6.10/b and \$5.90/b respectively at the Asian close Thursday, marking the lowest levels since October 2009.

- The FOB ARA physical Eurobob gasoline barge crack versus Dated Brent fell to a one-month low of \$2.54/b Thursday, down from \$8.68/b on February 10.

Metals and agricultural commodities are also responding to growing concerns over global economic growth.

- LME copper prices -- a barometer of global economic health -- have fallen around 10% year to date to close at a cash price of \$5,617/mt on Thursday.
- All base metals contracts fell on the SHFE in the Friday morning session, with zinc’s most-traded May contract down 2% from Thursday’s close at Yuan 16,145/mt.
- The May New York No.11 raw sugar futures contract has fallen 7.6% over the last week, from above 15 cents/lb to trade at 13.97 cents/lb at the time of writing, as coronavirus fears drag agricultural commodity prices lower.

Carbon and gas prices are also coming under pressure as concern builds over the impact on industrial activity in Europe.

- EU carbon allowance futures contracts for December 2020 delivery fell sharply to a three-week low of Eur23.18/mt (\$25.13/mt) February 28, down from Eur25.86/mt February 20.
- The Platts JKM, the LNG price benchmark for the Northeast Asia region, fell to an all-time low of \$2.71/MMBtu in mid-February, down by more than 40% since the start of January. It was assessed Friday at \$3.045/MMBtu

## INFRASTRUCTURE

Asian slowdown is shifting product flows into Europe, while there are signs rice buyers are stockpiling.

- Chevron this week sent home 300 workers from its Canary Wharf trading office in London amid an outbreak scare in the business hub.
- Italian major Eni told its staff in San Donato Milanese and central Milan offices to work from home, but has said domestic refineries and power plants are unaffected.
- OPEC issued a set of health guidelines for participants in its upcoming meetings recommending that if they feel unwell they maintain a distance of at least one meter from other people and each other.
- “The rolling geographic nature of the virus’s spread means its duration could be extended into the second quarter,” warned Platts Analytics in a recent update. “China has begun to return to work following the Lunar New Year holiday, but activity is still significantly impaired, with ‘return to work’ metrics no better than 50% as of today.”
- A lack of buyers and cancellation of contracts has prompted many companies to park their crude on VLCCs near Singapore.