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Oil demand growth tentatively returns but traders nervy as US coronavirus cases rise

The slightest shift in sentiment is causing ripples on the market these days and having a knock on effect on the oil price.

News of further outbreaks of the coronavirus in the US are on the rise and traders fear this will impact energy demand to the downside.

In Friday trading, Brent crude was holding above US\$41 with West Texas Intermediate (WTI) back below US\$39 a barrel.

New Covid-19 cases

The US reported higher than expected numbers of new Covid-19 cases this week, up 60,000, the highest number delivered by any one country in a day.

Total cases in the US are now above 3 million. Reuters reported that 42 of the 50 states in the US are showing an increase in cases in the last two weeks with a couple of states re-introducing restrictions.

This might hamper travel and demand for gasoline in the coming weeks after US gasoline stockpiles had declined by 4.8 million barrels last week, due to increased demand.

Inventories in Cushing, Oklahoma were higher this week, up about 2 million barrels.

The International Energy Agency held its first IEA Clean Energy Transitions Summit this week with ministers from around the world pledging to work towards putting the world "on course for a sustainable and resilient recovery".

The executive director of the IEA, Fatih Birol praised the possibilities of cooperation and said that the IEA wanted to ensure that "2019 was the definitive peak in emissions," and he said he was encouraged by "the momentum behind sustainable recovery and momentum behind clean energy transitions".

A 20% fall in investment

The IEA has delivered a number of Covid-19 related reports and warned of a 20% fall in energy project investment this year.

The IEA's sustainable recovery plan, developed in cooperation with the International Monetary Fund, sets out 30 recommendations that would help boost global economic growth and help create jobs in the energy sector.

The IEA calls for sustained global investment of one trillion dollars annually in the next three years. The US energy secretary Dan Brouillette tweeted the fact that American carbon emissions continue to fall, adding that he believed "innovation" would be the catalyst for a cleaner environment.

Earlier, he tweeted his continued support for Texas oil and gas so as "to protect America's energy independence and support the hundreds of thousands of blue-collar workers who rely on a vibrant energy sector".

American oil production is down to around 11 million barrels a day currently from 13 million barrels.

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The health of the global economy post-Covid will be essential for a return to stronger oil demand.

Uncertainty continues to make the market nervous, but the IEA data shows "the global crude market overhang narrowed in May," partly thanks to OPEC cuts, US and Canadian shut-ins and a pick-up in refinery runs.

Floating oil storage has also begun to decline but we need to remember that oil production is at a 9-year low as a result of the coronavirus impact. While demand growth is delicate, analysts agree that we are seeing it return, however slow.

The OPEC ministerial monitoring committee meeting will be held on Wednesday 15th where the market is expecting OPEC to discontinue the big cuts after July and ease back into lower cuts in an efforts to restore a sense of normalcy on the supply side, if that is possible in these times.

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