

The Commodities Feed: Another record for gold

The oil market appears to be running out of momentum in the absence of any new catalysts, meanwhile, spot gold prices hit record highs once again yesterday. However, where gold prices go from here will largely depend on US CPI data later this week



Energy – Brent holds near \$90

Oil prices came under pressure yesterday with ICE Brent settling almost 0.9% lower on the day. However, the market managed to recoup some of the earlier weakness seen in the trading session and settle above US\$90/bbl. While Israel pulling out some troops from Gaza may have contributed to the weakness, it is also clear that the market has been trading in overbought territory and overdue a downward correction in the absence of any escalation in tensions or supply disruptions. From the demand side, there is no real story to push oil higher with refinery margins continuing to weaken.

Looking at refined product cracks, most have come under pressure in recent weeks. However, it is naphtha which has led this weakness with the prompt naphtha crack in NW Europe falling from a discount of around \$8/bbl at the end of March to almost a \$12/bbl currently. We usually see some seasonal weakness in naphtha at this time of year with the petchem sector shifting towards LPG with a widening in the propane-naphtha discount. However, adding to the weakness are very comfortable naphtha inventories in the ARA region. According to Insights Global, naphtha stocks in ARA stood at 449kt last week, which is the highest level for this time of year in at least 10 years. Cheaper feedstock prices have seen ethylene margins strengthen, which could provide somewhat of a floor for naphtha cracks not too far away from current levels.

The EIA will release its latest Short Term Energy Outlook later today. The report will include their latest US crude oil production estimates and it will be interesting to see whether the more recent price strength has prompted the EIA to revise higher its production estimates at all. Last month the EIA forecast that US crude oil production will grow by just 258k b/d year-on-year to 13.19m b/d in 2024 and then by a further 461k b/d in 2025 to 13.65m b/d.

European natural gas prices have seen some strength in recent days with TTF settling 4.89% higher yesterday, leaving it just shy of EUR28/MWh. The move higher is at odds with the current storage situation. EU storage is now 60% full with it having edged higher since the end of March. The more recent strength in the market appears to reflect slightly lower pipeline flows from Norway as a result of an unplanned outage at a field. We believe any strength will be short-lived given the comfortable inventory levels, and continue to expect TTF to average EUR25/MWh over the second and third quarter of this year.

Metals – Gold sets another record

Spot gold prices set another record yesterday, trading briefly above \$2,350/oz, and now up 13% since the beginning of the year. The precious metal has had a record-breaking run since mid-February, boosted by expectations for US rate cuts, geopolitical tensions and China's economic woes. The key driver of the outlook for gold prices for the past year has been Federal Reserve policy, with rising optimism surrounding the central bank inching closer to the much-anticipated pivot fuelling the precious metal's rally. The Fed is expected to cut this year, but has said that it needs to see more evidence of inflation easing first. The market will be closely watching US March inflation data scheduled for release later this week.

Gold has also been supported by strong central bank buying as reserve diversification and geopolitical concerns have pushed them to increase their allocation towards safe assets. China's appetite for gold has been particularly strong, with the People's Bank of China purchasing gold for its reserves for the 17th month straight in March. China's official reserve assets in March rose to the highest since November 2015. The central bank added about 5 tonnes of gold last month to its reserves taking the total to 2,262 tonnes.

Agriculture – Global coffee exports rise

The latest data from the International Coffee Organization (ICO) shows that global coffee exports increased to 11.3m bags in February, up 6.8% YoY. This includes Arabica exports of 6.7m bags (up 16.9% YoY) and Robusta exports of 4.7m bags (down 4.9% YoY). This leaves shipments between October 2023 and February 2024 at 56.2m bags, up 11.1% YoY.

The USDA's weekly export inspection data for the week ending 4 April showed weaker export demand for US grains. Export inspections for corn stood at 1,420kt over the week, lower than 1,471.9kt in the previous week but higher than the 839.2kt reported a year ago. Similarly, US wheat export inspections stood at 497.5kt, down from 569.1kt a week ago but higher than the 390kt seen last year. For soybeans, US export inspections came in at 484.3kt, compared to 547.4kt from a week ago and 678.9kt reported a year ago.

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