The Commodities Feed: Complex under pressure

Yesterday's risk-off move dragged commodities lower. And with little in the way of oil-related releases this week, oil price direction is likely to continue to be dictated by external drivers

Source: Shutterstock

Energy - Large US crude draw

Oil was unable to escape the broader market pressure witnessed yesterday, with weaker US consumer confidence weighing on risk assets, while a stronger USD also did not help. ICE Brent settled close to 2.4% lower on the day, leaving prices hovering just above US$80/bbl. The oil market has already seen a fair amount of weakness over the last week as falling refinery margins raised concern about demand. From a technical point of view, we could still see a little bit more weakness in the market, given that prices still need to fill the gap left following the May-23 contract expiry. To close this gap we would need to see Brent trading towards US$79.80/bbl.

While macro data has not been constructive for the oil market, inventory numbers released overnight were more supportive. The API reported that US crude oil inventories fell by 6.1MMbbls over the last week - a much larger draw than the 1-1.5MMbbls decline expected. On the refined product side, gasoline inventories fell by 1.92MMbbls, although distillates stocks increased by 1.7MMbbls.

The EU officially launched its new joint gas purchase platform - AggregateEU - yesterday. Gas buyers will be able to submit their estimated demand for the next year starting in June. The aim is to match buyers and sellers and try to prevent EU buyers from outbidding each other. EU countries are obliged to aggregate demand for volumes of gas equivalent to 15% of their respective storage-filling obligations. Beyond the 15%, the aggregation will be voluntary but based on the same mechanism.

Metals – Iron ore sinks below US$100/t

Iron ore prices briefly broke below the US$100/t mark yesterday for the first time since early December as end-use demand continued to disappoint. The latest comments from the China Iron and Steel Association (CISA) suggest that Chinese steelmakers should curb loss-making output amid disappointing demand and a rapid decline in domestic steel prices. The Association expects domestic market conditions to remain uncertain in 2Q23. Meanwhile, steel inventories at major Chinese steel mills rose to 18.5mt in mid-April, up 1.2% compared to early April, according to data from CISA. Crude steel production at major mills decreased by 1.4% from early April to 2.29mt/d in mid-April.

The latest LME data shows that total on-warrant stocks for copper increased 7,000 tonnes (largest daily inflow since 3rd March) to 57,025 tonnes. Total exchange inventories for copper rose by 6,900 tonnes to 60,775 tonnes, the highest since 11 April. As a result, the cash/3m spread has seen its contango widen out to US$22/t compared to a contango of around US$8/t a week ago.

Data from the China Gold Association shows that domestic gold consumption rose 12% YoY to 296.1t in 1Q23, with most of the growth reported in February and March. The association further added that consumption of gold jewellery, gold bars and coins all posted a strong recovery amid improved consumer appetite accelerated by China’s reopening.

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