

# The Commodities Feed: Energy complex under pressure

USD strength weighed on much of the commodities complex yesterday, while milder weather continues to put pressure on natural gas prices



## Energy - milder weather continues to weigh on gas

Energy markets came under significant pressure yesterday, along with the rest of the commodities complex. A stronger USD weighed heavily on markets, while milder weather across much of the Northern Hemisphere has put further downward pressure on prices. ICE Brent fell by more than 4.4% yesterday - its largest daily decline since September. The weakness in the market comes despite the China reopening story, which should be constructive for the demand outlook in the medium to longer term. Although admittedly, rising Chinese covid infections could weigh on demand in the immediate term.

There were also reports that the Chinese government issued 18.99mt of refined product export quotas in the first tranche for 2023, up 46% from the same period last year. This should also be seen as a constructive factor for crude demand in the near term as it should support Chinese refinery runs, particularly at a time when there are concerns over Chinese domestic demand in the immediate term due to rising covid infections.

Preliminary OPEC production numbers are starting to come through and a Bloomberg survey estimates that the group's output in December averaged 29.14MMbbls/d, up 150Mbbls/d MoM. The increase was largely driven by a recovery in output from Nigeria, where production increased by 150Mbbls/d to 1.35MMbbls/d. There were marginal changes amongst other OPEC members.

Milder weather across large parts of Europe continues to weigh on natural gas prices. TTF fell by more than 6% yesterday, leaving it to trade just above EUR72/MWh. Milder weather has meant that storage is not drawing as quickly as initially expected. In fact, in recent days we have seen European gas storage increasing. At the moment storage is a little under 84% full compared to a 5-year average of almost 70% for this time of year. The milder weather has eased concerns and it is looking as though the region will make it through this heating season in a comfortable manner.

Concerns also appear to be easing for next winter with the entire TTF forward curve trading below EUR90/MWh. However, there are still clear risks for the market as we move through the year and prices will need to remain elevated in order to ensure the market remains in balance.

## Metals- Gold climbs to six-month high

Gold rose to its highest level in six months as Treasury yields declined. Speculation of the Federal Reserve softening its hawkish stance has supported the non-yielding asset. Any hints from the Fed of an easing in its aggressive hiking cycle should provide further support to prices.

Copper prices came under some pressure yesterday following the release of weak manufacturing data from China. Surging Covid-19 cases in China are hurting consumption in the country with fabricators cutting runs or bringing forward Lunar New Year breaks because of sick workers and lower winter demand, according to the Shanghai Metals Market (SMM). Operating rates at 21 major copper-rod producers fell to about 60% of capacity last week, the lowest since June, SMM said.

For aluminium, the latest data from SMM showed inventories of aluminium ingots increasing for a third consecutive week, totalling 561kt as of 3 January, up 68kt from last Thursday. The data showed inventory accumulation across all eight major markets due to increased arrivals and muted demand during the New Year holiday. Meanwhile, the latest reports suggesting that some Chinese downstream factories have already been closed ahead of the Lunar New Year holidays are raising concerns about more inventory build-up over the coming weeks.

## Agriculture – Indian sugar output rises

The latest data from the Indian Sugar Mills Association (ISMA) shows that 2022/23 Indian sugar production rose 3.7% YoY to 12.1mt through until 31st December, compared to 11.64mt during the same period last year. The group said that by the end of December, 509 mills were crushing cane, compared to 500 mills at the same time last year.

## Authors

### Warren Patterson

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

### Ewa Manthey

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

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