The Commodities Feed: EU extends gas demand cuts

Oil prices remain well supported with ongoing supply disruptions from Iraq. Meanwhile, EU energy ministers have agreed that voluntary gas demand cuts will be extended by another year

Gas storage tank

Energy - supply concerns linger

Oil prices remained well supported yesterday and continue to be in early morning trading today. Supply concerns continue to prop up prices. Iraqi oil flows via Turkey have still not resumed following a legal ruling last week that ruled in favour of the Iraqi government. The Iraqi government believes that Kurdish oil should not be exported via Turkey without Iraq's approval. The volumes affected are fairly large at around 400Mbbls/d. Talks have so far failed to reach an agreement. There are reports that the US is pushing the parties involved to resume these oil flows.

Providing further support to the oil market overnight was bullish inventory data from the API. US crude oil inventories are reported to have fallen by 6.1MMbbls over the last week - quite different from the small build the market was expecting. Meanwhile, crude oil inventories at Cushing also declined by 2.4MMbbls. Product inventory changes were also constructive, particularly for gasoline, with stocks falling by 5.9MMbbls. The more widely followed EIA report will be released later today.

EU energy ministers met yesterday and agreed that the voluntary 15% natural gas demand cut will be extended by 12 months through until the end of March 2024. These voluntary cuts were scheduled to expire at the end of this month. As before, these voluntary cuts could become compulsory if the EU gas market was to tighten significantly. Our balance sheet shows that the EU will not need to see cuts as large as 15% from April onwards. Instead, we believe a 10% demand cut will be enough.

The European Commission is also looking at a way of tackling Russian LNG flows into Europe. Whilst Russian pipeline flows have fallen significantly since the war, LNG imports from Russia have grown significantly. Russian LNG flows to Europe last year totalled around 22bcm, up more than 37% YoY. The EU is looking at giving members the option to block Russian firms from booking capacity at import terminals. This would basically give member countries the option to block Russian LNG imports, without the region having to impose sanctions.

Metals – Dollar weakness lifts prices

Industrial metals edged higher yesterday with LME copper prices approaching the $9,000/t mark as the USD continued its decline for a second straight session, while risk sentiment appears to also be improving.

The latest LME COTR report shows that investors reduced their net bullish positions for aluminium by 5,833 lots to 91,578 lots, whilst net long positions in zinc fell by 1,639 lots to 30,892 lots (the lowest in four months) as of last Friday. In contrast, speculators increased net long positions in copper by 3,947 lots (after falling for two consecutive weeks) to 47,218 lots in the week ending 24 March.

Iron ore prices continued their recovery yesterday amid expectations of stronger Chinese steel consumption as the peak construction season starts. Tighter supply has also provided support to the market. Daily exports of iron ore from Brazil have been down so far in March. The latest data from Brazil's economy ministry shows that daily average exports of iron ore reached 1.14mt/d in the first 18 business days of March, compared to shipments of 1.3mt/d last month and 1.31mt/d in March 2022.

Fortescue Metals Group now expects the first output from its Iron Bridge Magnetite Project in the second half of April. Previously, the company said that production would start at the project at the end of 1Q23. The mine is expected to produce 22mtpa of high-grade 67% iron magnetite concentrate.

Agriculture –Indonesia's 2023 coffee output to fall

The Association of Indonesian Coffee Exporters and Industries expects domestic coffee production to fall 20% YoY to 9.6m of 60kg bags this year, down from 12m bags in 2022 due to severe rainfall. The group further added that Indonesia's bean exports are projected at 250kt in 2023, down from 320kt in 2022.

The latest data from Ukraine's Agriculture Ministry shows that 2022/23 grain exports stood at 36.9mt as of 27 March, a decline of 17.7% YoY. Total corn shipments stood at 21.7mt (+6.7% YoY), while wheat exports fell 31.4% YoY to 12.6mt.

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