The Commodities Feed: European gas sell-off

Oil prices firmed yesterday with shorts likely covering ahead of this week's FOMC meeting. European gas prices came under further pressure as milder weather spread across the region

Energy – Refiners react to weaker margins

ICE Brent settled 1.59% higher yesterday, possibly as shorts in the market cover their positions ahead of Wednesday's FOMC meeting, where the market is still torn between a 25 basis point or 50bp cut from the Fed. There are also lingering concerns over Libyan oil supply, which continues to be disrupted due to political fighting over the central bank's control. In addition, in the US, a little more than 12% of US Gulf of Mexico oil production remains shut-in following Hurricane Francine.

Refinery margins around the globe remain under pressure. Unsurprisingly this weakness is leading refiners to reduce their run rates. In Spain, it is reported that Repsol will be cutting run rates by around 5%. While in Italy, ENI will reportedly reduce run rates by as much as 10% at some of its refineries. A reduction in run rates is obviously not great for crude oil demand.

European natural gas prices came under further pressure yesterday. TTF settled 4.4% lower on the day and finished at its lowest level since late July. Warmer weather weighed on prices. EU storage continues to tick higher despite reduced flows from Norway, where heavy scheduled maintenance is ongoing. Admittedly, storage builds have slowed significantly due to these reduced flows, but EU storage still stands at more than 93% full.

Metals – Aluminium surges on raw material supply concerns

LME aluminium settled more than 2.3% higher yesterday to close at $2,528/t due to concerns over the raw materials market. Severe weather conditions and pressure in the catchment area of a dam led to the collapse of a water storage pond at a Vedanta Ltd. alumina refinery in India. However, the company has stated that there was no disruption to operations at the Lanjigarh refinery and that alumina production remains unaffected.

Spot gold prices hit record highs once again yesterday, reaching almost $2,590/oz. This is as expectations build that the Fed could cut by 50bp at Wednesday's FOMC meeting. According to the CME FedWatch tool, the chances of a 50bps cut are now 62%, while the probability of a 25bp cut is estimated at 38%. The gold market will likely be disappointed with only a 25bp cut.

Agriculture – Arabica prices rise on supply woes

Arabica coffee futures jumped more than 4.8% to a high of USc272/lb yesterday (the highest since September 2011), amid supply concerns from Brazil due to dry weather conditions for the ongoing season. Arabica prices have increased by around 40% this year, due to stronger demand with supply shortages of robusta beans in the global market.

The latest crop progress report from the USDA shows that the US corn crop continues to remain in good condition with 65% of the crop rated good-to-excellent, up from 51% at the same stage last year. Similarly, 64% of the soybean crop is rated good to excellent, compared to 52% at the same stage last year.

Weekly export inspection data from the USDA for the week ending 12 September shows that US soybean shipments rose while corn and wheat exports slowed over the last week. US weekly inspections of wheat for export stood at 556.9kt, down from 620.8kt in the previous week but up from the 422.6kt reported a year ago. Similarly, export inspections for corn stood at 521.1kt over the week, lower than 839.3kt in the previous week and 676.3kt reported a year ago. However, US soybean export inspections stood at 401.3kt, compared to 365kt a week ago, and 430kt seen a year earlier.

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