

The Commodities Feed: European natural gas prices plummet

It was a volatile start to the week for energy markets. European natural gas prices sunk, whilst oil moved higher. The next week will be key for markets. For natural gas, we will need to see whether flows along Nord Stream restart later in the week following maintenance. For oil, OPEC+ will hold its monthly meeting on 5 September to discuss supply policy



Corn prices have seen significant strength over the last week

Energy: oil rallies on growing supply risks

ICE Brent is now trading convincingly above US\$100/bbl, after settling more than 4% higher yesterday. The market appears to be getting increasingly nervous about growing supply risks from Libya. This is after fighting broke out in the capital, Tripoli, in recent days. Until now there have been no reports that this fighting has impacted the oil supply. However, with Libya pumping around 1.2MMbbls/d, the market is somewhat nervous about potential supply disruptions. Although, given how volatile Libyan supply has been in recent years, one would think that there was some level of risk premium already priced into the market.

In addition, market participants might be reluctant to short the market at the moment, given the uncertainty in the lead-up to the OPEC+ meeting on 5 September. This is particularly the case given that the Saudi energy minister said that the group may have to cut output, with a dislocation between the physical and paper market. Since then, a number of other OPEC members

have backed Saudi comments. So, potentially, the next meeting could be quite interesting, although it will be difficult to justify cutting output when Brent is trading above US\$100/bbl. However, we continue to believe that potential intervention from OPEC+ provides a floor to the market, which is not too far below the recent lows.

European natural gas prices came under significant pressure yesterday. TTF settled almost 20% lower, although prices are still trading at more than EUR270/MWh. Following the higher prices run, it seems there has been some profit-taking. From a fundamental point of view, little has changed to justify the scale of the move. Although given the uncertainty and limited liquidity in the market, prices are likely to remain trading at elevated levels with a large amount of volatility. Possibly contributing to the weakness were reports that the European Commission will come up with a proposal to address the significant strength that we have seen in European power prices. Any action which caps power prices will limit the profitability of burning gas for power generation, which could possibly feed through to lower gas demand. At the moment, spark spreads provide little incentive for gas demand destruction from the power generation sector.

Finally, Russian gas flows along Nord Stream are set to stop tomorrow (31 August) for three days of maintenance at a compressor station. The market will be eagerly watching to see if flows restart once maintenance comes to an end. Currently, Nord Stream is only operating at about 20% of capacity, and Gazprom has said that flows will return to these levels once the work is complete. If flows do restart when stated, it could provide a bit further downside to European prices in the immediate term.

Metals: Fed hawkishness weighs on metals

While the LME was closed for a holiday yesterday, prices in early morning trading today have come under pressure, with copper breaking below US\$8,000/t. Sentiment in broader financial markets remains downbeat following the hawkish comments from the Fed at the end of last week.

As for aluminium, Henan Zhongfu has restarted idled aluminium capacity in Sichuan province in China. The company shut down some of its capacity on 14 August due to power shortages. Large-scale industrials in the region have gradually started resuming operations, following an easing in emergency energy measures. This move should weigh on aluminium prices, although clearly there are still plenty of supply risks for the market, given the high energy price environment in Europe.

Mysteel reported that Tangshan located in North China's Hebei province aims to reduce crude steel output by 8.3mt (from last year's level) in 2022. As per the latest target, Tangshan's total crude steel output should not exceed 122.8mt this year, when compared to 131.11mt last year. Cumulatively, crude steel output rose 0.7% year-on-year to 74.7mt in the first seven months of the year.

Agriculture: US corn concerns linger

The USDA's latest crop progress report shows that for the week ending 28 August, just 54% of the US corn crop is rated good-to-excellent, which is down from 60% at the same stage last year. Corn prices have seen significant strength over the last week, particularly after the Pro Farmer crop tour suggested that corn yields for the US crop will likely be lower than what the USDA is currently forecasting. Pro Farmer is expecting corn yields to average 168.1 bu/acre compared to the USDA's forecast of 175.4bu/acre. As a result Pro Farmer expects US corn output to total 13.759 billion bushels, compared to the 14.359 billion bushels that the USDA is currently forecasting.

Canada is likely to see a strong recovery in crop production this year on the back of favourable weather and higher acreage due to stronger prices. In its first estimates for the year, Statistics Canada forecasts wheat production to increase by around 55% YoY to 34.6mt in 2022/23, although this is still lower than the 35.4mt produced in 2020/21. Corn production is estimated to increase by around 6% YoY to 14.8mt in 2022/23.

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