The Commodities Feed: Further European gas disruptions

Oil prices strengthened yesterday on signs of a stronger physical market, while further supply disruptions in Europe led to a rally in natural gas prices

Energy – Further European gas disruptions

Oil markets continued to strengthen yesterday. ICE Brent settled 1.28% higher on the day, taking it back above $85/bbl. This is the market's strongest close since late April. While a broader risk-on move has proved supportive for oil, there are also some signs of strength in the physical market. The prompt ICE Brent time spread has strengthened, while the Dated to Frontline Brent (DFL) swap has moved deeper into positive territory and to its highest level since early May. This is after the DFL swap ventured into negative territory in late May/early June. Our balance shows the market tightening in the third quarter of this year after the rollover of OPEC+ cuts, so we should be seeing signs of a tightening in the physical market. However, how tight it becomes depends on how demand performs. Weak refinery margins remain a concern for the market.

Numbers from the API overnight show that US crude oil inventories increased by 2.26m barrels over the last week, as opposed to expectations for stocks to fall by roughly 2.8m barrels. Crude inventories at Cushing increased by 524k barrels, while gasoline stocks fell by 1.08m barrels and distillate stocks increased by 538k barrels. The surprise crude build means the report was moderately bearish.

For natural gas, TTF prices rallied a little over 1.4% yesterday following an unplanned outage at the Nyhamna processing plant in Norway, affecting 33.8mcm/day of supply. The duration of the outage is still uncertain, but with power reportedly restored we wouldn't expect it to be prolonged. However, this is yet another supply disruption that the European market has had to face in the last few months. These persistent supply disruptions have been enough to see speculators build their net long in TTF to the highest level since early 2022.

Copper trades lower as inventories rise

LME copper retreated towards $9,500/t yesterday following large inflows in exchange inventories. Copper inventories at LME warehouses rose by 19,175 tonnes to 155,850 tonnes. This was the largest daily addition since 7 September 2023. Most of the inflows were reported at warehouses in South Korea and Taiwan. We believe copper prices will likely remain under pressure in the short-term, unless the Chinese government unveils sustained stimulus measures, or we see Chinese smelters cutting output.

Agriculture – Ukrainian crop downgrades

The European Commission estimates that Ukrainian wheat production will drop 25% YoY to 20.6mt in 2024, lower than the five-year average of 27.6mt. The decrease in production estimates is partly driven by adverse weather. Similarly, corn output projections decreased 9% YoY to 28.8mt.

Trade numbers from China Customs show that wheat imports jumped 61.1% YoY to 1.9mt in May, while cumulative imports rose 12.6% YoY to 8.1mt over the first five months of the year. High temperatures and lower rainfall in the major producing regions have driven these stronger imports. For corn, imports fell 36.8% YoY to 1.05mt last month

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