The Commodities Feed: Further gas supply disruptions

Oil prices remain well supported on expectations of a tighter market. Meanwhile, gas prices have rallied on the back of further supply risks

Energy – further gas supply disruptions

Oil prices remain well supported, with ICE Brent trading back above US$92/bbl in early morning trading today. Sentiment in the market clearly remains constructive after the International Energy Agency (IEA) in its latest monthly oil market report warned about the market tightening significantly over the remainder of the year due to ongoing OPEC+ supply cuts. The IEA estimates that global oil inventories fell by 76.3MMbbls over August, taking inventories to their lowest levels in 13 months. Meanwhile, Russian oil exports fell by 150Mbbls/d MoM to 7.2MMbbls/d in August. As for demand, the IEA still believes that it will grow by 2.2MMbbls/d this year, driven by China. However, demand growth in 2024 is expected to slow to around 1MMbbls/d with expectations of weaker GDP growth.

We mentioned yesterday that higher oil prices will likely lead to increased political pressure. And it appears as though the US Department of Energy has already been in touch with domestic oil producers and refiners with regard to inventories and the supply outlook. We are likely to hear only more noise around this matter, particularly after a strong CPI print yesterday.

Weekly US inventory numbers from the IEA were fairly bearish, with inventory increases in crude oil and refined products. Commercial crude oil inventories increased by 3.96MMbbls over the week, driven by stronger imports and a 1.84MMbbls/d decline in crude exports. Slightly stronger refinery runs over the week along with weaker gasoline demand saw gasoline inventories increase by 5.56MMbbls – the largest weekly increase since July last year. Distillate fuel oil inventories grew by 3.93MMbbls. However, distillate stocks are still around 17MMbbls below the 5-year average as we head closer towards the winter months.

European gas prices saw further strength yesterday with TTF rallying a little more than 6%. The main catalyst for the move appears to be yet another extension to maintenance at the Troll field in Norway. Capacity is now expected to only restart from 15 September. In addition to this, strike action at the Gorgon and Wheatstone LNG facilities in Australia is set to escalate from today, putting around 6% of global supply at risk. Chevron is trying to bring an end to strike action by taking the matter to a tribunal with a hearing scheduled for 22 September. If these supply matters were not enough, there are also some LNG disruptions coming from the US. The Freeport LNG plant has seen its feedgas intake fall significantly over the last several days. Intake has fallen from a usual 2bcf/day to 334mcf/day according to LSEG data. This will obviously feed through to reduced LNG supply and would be more of a direct concern for the European market than the Australian strikes.

Metals – Copper stocks rise

Gold prices came under some further pressure yesterday after US inflation data suggested that rates are likely to remain higher for longer. In addition, higher energy prices suggest that inflation might be stickier than many were initially expecting. In this high rate environment, investors continue to shun gold, with ETF holdings set for their sixteenth consecutive week of outflows. Total holdings stand at a little over 89moz, the lowest levels since March 2020.

LME on-warrant copper stocks continue to increase with six consecutive days of inflows. On-warrant stocks increased by 7,750 tonnes yesterday, taking the total to 143,100 tonnes, the highest since September 2021. Rising stocks continues to put pressure on timespreads with the cash/3m spread trading in a contango of US$19.50/tonne.

The latest LME COTR report released yesterday shows that investors decreased net bullish positions for copper by 7,276 lots to 52,925 lots in the week ending 8 September, as a continuous rise in readily available LME inventories eased supply concerns. A similar move has been seen in aluminium with speculators decreasing their net bullish bets by 4,541 lots to 78,105 lots, whilst money managers reduced bullish bets in zinc by 980 lots to 32,375 lots over the last reporting week.

Recent data from the China Iron and Steel Association (CISA) shows that steel inventories at major Chinese steel mills rose to 15.8mt in early September, up 7.3% compared to late August. Meanwhile, crude steel production at major mills rose 5.5% from late August to 2.16mt/d in early September, as domestic steel mills maintained higher output levels on expectations of seasonal pick-up in downstream demand.

Agriculture – UNICA reports higher sugarcane crush

The latest fortnightly report from UNICA shows that sugar cane crushing in Centre-South Brazil rose to 46.5mt, up 5.2% year-on-year in the second half of August. The markets expected cane crushing to remain high, as favourable weather conditions continued to boost the processing pace. The cumulative sugar cane crush for the season increased by 11% YoY to 406.6mt. Sugar production increased 10% YoY to 3.5mt in the second half of last month. About 50.7% of cane was allocated to sugar production over that fortnight, higher than the 48.5% allocated in the same period last year. Cumulative sugar output so far this season stands at 26.1mt, up 20% YoY.

Ukraine's Agriculture Ministry reported that total grain exports for the season fell 7.5% YoY to 5.4mt as of 13 September. These shipments include 2.3mt (-32.5% YoY) of corn and 2.5mt (+36.5% YoY) of wheat. Ukraine has been relying on its Danube ports for exports of grains lately and the constant attacks by Russia are certainly hampering the smooth transit.

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