

The Commodities Feed: Gas supply risks

European gas prices rallied yesterday following Nord Stream developments, along with growing supply risks for Russian gas coming to Europe via Ukraine. Growing uncertainty as we head closer to the heating season suggests we could see increased volatility in gas prices



Energy- gas supply risks grow

Unsurprisingly, given the latest developments in the European natural gas market, TTF rallied yesterday, settling more than 7% higher on the day. Three leaks were detected along both the Nord Stream 1 & 2 pipelines, which appear to be due to sabotage. However, from a supply perspective, little has changed given that the Nord Stream 2 pipeline has never come into commercial operation, whilst flows along the Nord Stream 1 pipeline came to a complete halt in late August/early September. However, this latest incident suggests that flows along Nord Stream 1 are unlikely to restart for the foreseeable future. In addition, with suggestions that the leaks are due to sabotage, there will be safety concerns around other European energy infrastructure.

Another development that could have a more immediate impact on gas supplies to Europe was a warning from Gazprom that Russia could impose sanctions on Ukraine's Naftogaz due to ongoing arbitration. This is an important development to watch because if Naftogaz is sanctioned, Gazprom will not be able to pay transit fees to the company for Russian gas which goes via Ukraine to Europe. Therefore, the risk is that these flows come to a complete halt, which will only tighten up the European market further as we move towards the heating season. At the moment, flows via Ukraine are in the region of 42mcm/day, and if these were to stop it would leave flows via Turkstream as the only route to Europe for Russian pipeline gas.

Oil prices saw a relief rally yesterday, following the recent weakness in the market. Reuters reports that Russia may propose at the OPEC+ meeting next week for the group to cut output by 1MMbbls/d. In theory, this would be a large cut, but in reality, the cut would be quite a bit smaller, given that the group is producing well below its current production targets.

Hurricane Ian is leading to more disruptions to offshore oil and gas production in the US Gulf of Mexico. The latest numbers from the Bureau of Safety and Environment Enforcement (BSEE) show that 11% of US GoM oil production has been shut, whilst 8.56% of natural gas production has also been shut.

Metals – widening contango in nickel

LME nickel has witnessed a sharp fall in spreads. The LME cash-3M spread dropped to a contango as low as US\$167/t this week (although strengthened slightly to \$135/t yesterday). This is the largest contango seen in the spread in over a decade. A stronger USD, higher interest rates and a fall in prices appear to be weighing on the financing deals of nickel. Time spreads for LME aluminium (another metal where financing deals are very common) have also eased this month with cash-3M spread falling to a contango as low as US\$25/t recently, compared to a backwardation of US\$10/t at the start of the month.

Chinese copper smelters were reported to have increased the floor price for treatment charges to US\$93/t for copper refining in the 4th quarter of the year compared to around US\$80/t for the current quarter. Higher treatment charges reflect the higher demand for Chinese smelting capacity as power shortages in Western markets impact smelting and refining capacity in these regions. Chinese copper concentrate imports have increased by around 9% in the year so far to around 16.6mt over the first 8 months of the year, while imports in August hit a new monthly high of 2.3mt (+20% YoY).

The latest data from the American Iron and Steel Institute shows that operating rates at steel mills in the US dropped to around 76% over the last week, the lowest level since January 2021. Logistical issues, high power prices and shortages combined with a slowdown in demand growth have weighed on operating rates.

Agriculture – sugar supplies remain tight in Brazil

Sugar cane crushing in Brazil continues to recover, although it remains well below levels seen last year due to a delayed start of the season. Industry association, UNICA, reported that sugar cane crushing in Center-South Brazil increased by 2.5% YoY to 39.5mt over the first half of September. Sugar production in the region increased by 12.2% YoY to 2.9mt as mills allocated 48% of cane towards sugar production compared to 44.9% a year ago. Cumulative sugar cane crushing is still down around 6.1% YoY to stand at 405.8mt, whilst cumulative sugar production is down 8.4% YoY to 24.6mt. No 11 sugar is one of the few commodities which avoided the broader market sell-off over the last few sessions as the market awaits a decision from India on its export quota, which could be announced over the coming days. We believe that the export quota could be set lower than market expectations as India fights surging inflation and the government could prioritize supply for the domestic market.

The latest data from the European Commission shows that corn imports into the region increased by around 81% so far this season to around 6.7mt. Expectations of lower domestic production this year due to adverse weather and low inventories have pushed imports higher. Meanwhile, EU

wheat exports softened to around 378kt last week compared to around 534kt in the previous week. Cumulative exports this season are now only marginally higher (+0.6% YoY) than the year-ago levels at around 8.8mt after a very strong start to the export season in July and August.

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