The Commodities Feed: Gas supply risks build

European natural gas prices surged to their highest level this year due to concerns over the potential for disruptions to Russian pipeline flows via Ukraine

Energy – European natural gas supply risks grow

European natural gas prices surged higher yesterday. TTF front-month futures settled more than 4.8% higher on the day taking prices to their highest level this year. The rally comes after reports that Ukrainian troops launched an attack on the Kursk region in Russia, which has led to a state of emergency being called. There are also some unconfirmed reports that Ukrainian troops captured the Sudzha entry point, which is the only current entry point of Russian pipeline gas into Ukraine, which ultimately ends up in the EU. Around 42mcm/d of gas comes in via this entry point. If these reports turn out to be true, it increases the risk that we see a more sudden stop in Russian pipeline flows via Ukraine. However, there does not appear to be any disruption up until now. The market is already bracing itself for an end to these flows at the end of the year when Gazprom's transit deal with Ukraine expires, but the potential to lose this supply even earlier would be a shock to the system.

This recent development will provide speculators with another excuse to add to their net long in

TTF. The latest positioning data shows that investment funds increased their net long by a significant 60.5TWh over the last reporting week to 192TWh - the highest level since September 2021.

Oil prices also rallied yesterday. ICE Brent settled 2.42% higher on the day after US commercial crude oil inventories fell by 3.73m barrels- more than the market was expecting. It is also the sixth consecutive week of crude oil stock declines. This leaves total commercial crude inventories at their lowest level since February. However, product numbers were less supportive. Gasoline and distillate stocks increased by 1.34m barrels and 949k barrels respectively. Implied gasoline demand was also weaker, falling 283k b/d WoW to below 9m b/d.

The latest trade data from China was relatively bearish. Chinese crude oil imports in July averaged 10.01m b/d, down 3.1% YoY and 11.8% lower MoM. This leaves cumulative imports over the first seven months of the year down 2.4% YoY. Weaker Chinese oil demand was a key driver behind the weakness in oil prices over much of July.

Metals - China holds off gold buying amid record prices

The People's Bank of China didn't add gold to its reserves for a third consecutive month in July. China has seen a slowdown in gold purchases over recent months. China's central bank ended an 18-month buying spree in May that had driven gold prices to record highs. High gold prices have likely deterred further purchases for now. Bullion held by the PBoC was unchanged at 72.8 million troy ounces at the end of last month, according to official data.

In base metals, copper continued its slump after LME inventories surged by the most in four years – up by 42,175 tonnes yesterday. Inventories now stand at the highest level since 2019. More metal has continued to flood warehouses in South Korea and Taiwan – the closest delivery points to China. This underscores soft domestic demand in China, where refined copper exports have hit record highs. These large inventory levels will continue to weigh on prices until demand finds some positive momentum.

Agriculture – Cocoa rises on lower exchange inventories

Cocoa futures trading in New York extended the upward rally for a third straight session yesterday with prices settling 4.41% higher, as falling exchange inventories ignited near-term supply availability concerns. It is believed that supply shortages in the current season are forcing grinders to withdraw stocks, and pushing cocoa bean inventories in US warehouses to their lowest in four years. Similarly, recent data shows that total cocoa arrivals at the Ivory Coast ports for the season so far have dropped to 1.66mt as of 4 August, down 39% from the same period last year. However, expectations are that the cocoa market could flip to a supply surplus in the 2024/25 season.

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