The Commodities Feed: Gas supply risks

European gas prices rallied after warnings that Russian gas flows to Austria could be halted

Energy - supply risks push European gas higher

European natural gas prices have hit their highest level since January. TTF prices settled 4.2% higher yesterday at almost EUR34.39/MWh. This is after the Austrian energy company, OMV, warned that there was a risk that Russian pipeline flows to Austria could be halted after a court ruling that would block payment for natural gas delivered by Russia’s Gazprom Export. However, it is unclear if the ruling will be enforced. The supply at risk is 6 bcm per year supplied by Gazprom under a long-term contract to OMV for delivery into Austria. Austria still receives almost all of its gas supplies from Russia. In March, 93% of Austria's gas imports came from Russia. While a potential stoppage in these flows could lead to some localised tightening in the gas market, Europe as a whole should manage.

The latest positioning data shows that investment funds reduced their net long in TTF by 11.66m contracts over the last week to 91.55m contracts as of 17 May, the first decline since early April.

The oil market came under further pressure yesterday. ICE Brent settled a little more than 1% lower on the day, which saw the market close below US$82/bbl - its weakest settlement since February. The downward pressure on oil was part of a broader risk-off move after the latest Fed minutes supported the higher-for-longer narrative when it comes to monetary policy. The weakness in oil prices increases the likelihood that OPEC+ members fully roll over their additional voluntary supply cuts into the second half of the year.

Weekly data from the EIA yesterday showed that US commercial crude oil inventories increased by 1.83m barrels WoW, while crude oil stocks at Cushing increased by 1.33m barrels. For refined products, gasoline stocks fell by 945k barrels and distillate stocks increased by 379k barrels. The fall in gasoline stocks was despite refinery utilisation rates increasing by 1.3pp over the week to 91.7%. Stronger gasoline demand would have contributed to the draw. Implied gasoline demand increased by 440k b/d WoW and this trend should increase as we move into the driving season.

Metals – Global steel output declines

Metal prices came under pressure yesterday as the complex got caught up in the broader risk-off move following the Fed minutes. In addition, as we have mentioned previously, recent price strength in metals, particularly copper, was becoming increasingly detached from short-term fundamentals. Therefore, we would have likely seen some profit-taking from speculators.

The latest data from the World Steel Association (WSA) shows that global steel production declined by 5% YoY to 155.7mt in April, following lower output from major producers like China, Japan, Russia and South Korea. Cumulatively, global steel output fell almost 1% YoY to 625.4mt over the first four months of the year. Chinese steel production decreased 7.2% YoY to 85.9mt last month, whilst cumulative output fell 3% YoY to 343.7mt. Output from South Korea, Russia and Japan declined by 10.4% YoY, 5.7% YoY and 2.5% YoY respectively in April.

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