

The Commodities Feed: Gasoline demand concerns linger

While Brent settled marginally higher yesterday, there will be concern following the EIA weekly report of weaker gasoline demand as we move deeper into the summer driving season



Energy - US gasoline demand worries

ICE Brent edged higher yesterday despite a bearish EIA report. EIA data showed that US commercial crude oil inventories increased by 3.59m barrels over the week, which was quite different to the 2.8m barrel draw the market was expecting. This leaves commercial crude oil inventories at 460.7m barrels, the highest level since April. While crude oil exports fell by 508k b/d WoW, imports also fell by 443k b/d. Crude input into refineries fell by 233k b/d WoW and refiners cut their utilisation rate by 1.3pp over the week. Despite lower refinery activity, gasoline stocks still increased by 2.65m barrels. Implied gasoline demand was weaker over the period, falling 417k b/d WoW. This will not help ease gasoline demand concerns as we move deeper into the summer.

The Dallas Fed released its latest quarterly energy survey yesterday, which showed that the activity index for the oil and gas sector rose in the second quarter to 12.5 from 2 in the previous quarter. According to executives from exploration and production (E&P) firms, oil and gas production was little changed over the quarter. The oil production index increased from -4.1 in the

previous quarter to 1.1 in 2Q24, while the natural gas production index increased from -17 to 2.3. Costs for E&P firms increased at a slower pace but rose at a faster pace for oilfield services. The finding and development costs index for E&P firms slowed from 24.2 to 15.7, while the input cost index for oilfield services firms increased from 31.2 to 42.2.

The 650k b/d Dangote refinery in Nigeria is reportedly still operating normally despite a fire at the refinery this week. The refinery started operations at the start of this year and is still in the process of ramping up. The refinery will not only increase middle distillate export supply, but will also help reduce the gasoline deficit faced in West Africa, reducing the need for gasoline imports from Europe.

European natural gas prices sold off yesterday. TTF settled 2.95% lower on the day. Stronger flows from Norway would have helped. Flows have averaged a little over 335mcm/day in recent days, which is the highest level since mid-June. Storage in Europe also continues to increase, standing at 76% full, broadly in line with levels seen at the same stage last year and above the 5-year average of 66%. However, investment funds continued to build their net long in TTF over the last reporting week, increasing their net long by 2.3TWh to almost 131TWh. This is the third consecutive week of buying and leaves the position at its largest since January 2022.

The EIA will release its weekly natural gas storage report for the US today. The market expects around a 54bcf increase in storage over the week, which is quite some distance below the 5-year average of an 85bcf increase.

Metals – Steel inventories in China continue to rise

Steel inventories at major Chinese steel mills rose for a second consecutive week to 16.4mt in mid-June, up 2.1% compared to early June, according to data from the China Iron and Steel Association (CISA). Steel inventories are 1.3% higher than in the same period last year. Meanwhile, crude steel production at major mills fell by 2.8% from early June to 2.19mt/d in mid-June.

Iron ore prices are down 22% so far this year as demand in the biggest consumer, China, continues to face headwinds from the property sector while the global seaborne market remains in a surplus. In addition, high port inventories in China continue to pressure iron ore prices. Port stocks in China jumped to a two-year high last month. We believe high iron ore availability in China will continue to put pressure on prices. Downside risks are likely to prevail in the near term amid subdued steel demand. A further boost for China's property sector will be crucial in supporting iron ore demand.

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