The Commodities Feed: Gold trades softer on lower rate cut expectations

Gold is softer this Thursday as stronger economic data and positive sentiment in the broader financial markets have eased Fed rate cut expectations for the March meeting. Meanwhile, a stronger EIA report pushed ICE Brent above US$80/bbl

Metals – Gold trades softer

- Gold has been trading lower as the prospect of a rate cut in March eased amid positive economic data and overall sentiment in the broader financial markets. The US composite PMI advanced to 52.3 in January, the highest level since June 2023, as service sectors show a rebound. The eurozone composite PMI also increased from 47.6 to 47.9 in January, indicating early signs of bottoming out, although it still remains in the contraction zone. The positive economic data hints that the US Fed may opt to wait before cutting rates, which weighed on gold demand. Investment demand for gold remains soft, with total known ETF holdings of gold falling by around 1.3mOz in the month so far to a total of 84.3mOz as of 24 January, the lowest level in nearly four years.

Energy – The EIA reports a tight crude oil market

- Crude oil prices recovered yesterday and have been trading on a firmer note this Thursday on a constructive report from the EIA on US crude oil inventory. The ongoing tensions in the Middle East, combined with positive economic data, further helped oil prices to trade higher. ICE Brent has been trading comfortably above US$80/bbl today, while NYMEX WTI also inched up to US$75.5/bbl. Brent-WTI spread has narrowed to US$4.9/bbl currently compared to a high of around US$5.8/bbl last week as the cold wave in the US tightens supplies in the US market.
- The weekly report from the Energy Information Administration shows that the US crude oil inventory dropped by a huge 9.2MMbbls over the last week. The withdrawals are significantly higher than the 6.7MMbbls of withdrawal that API reported or the market expectations of around 0.9MMbbls/d of withdrawal. Crude oil inventory at Cushing, Oklahoma, dropped by around 2MMbbls over the week. Crude oil imports into the country dropped by around 1.8MMbbls/d over the week, which helped to tighten the supplies.
- Refinery operating rates in the country dropped sharply by 7.1% over the week to 85.5% as of 19 January as the cold snap pushed a large part of the refining capacity to close temporarily. Gasoline inventory increased by around 4.9MMbbls over the last week, while distillate inventory was down 1.4MMbbls. The market expected inventory build-up of gasoline and distillate at around 1.4MMbbls and 0.6MMbbls, respectively.
- European gas prices increased yesterday as Qatar delayed some of the LNG deliveries into the region due to ongoing conflict around the Red Sea trade route. The longer route around the Cape of Good Hope adds around ten days of transport time for the LNG cargoes, which has pushed up gas prices in the immediate term. That said, total LNG supplies remain largely unaffected for now, and exports from Qatar remain at a healthy pace.

Agriculture– Coffee quality premium shrinks

- The spread between Robusta and higher-quality Arabica coffee tightened to around US¢40/lb yesterday as Robusta prices soared to new highs – the premium reached a recent high of around US¢80/lb in December 2023. Robusta coffee's active contract jumped to an all-time high of US$3,250/t yesterday at one point as supply disruptions from Vietnam and Brazil added to the supply tightness. The soaring prices have pushed farmers to hold onto the existing inventory in hopes of even higher prices, creating supply-demand imbalances. Moreover, the ongoing conflict around the Red Sea route makes it more challenging for Vietnamese coffee to reach the US and Europe.

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