

The Commodities Feed: Inventory pressure

Oil prices have come under pressure, driven by a stronger-than-expected US CPI print, further SPR releases and a bearish API inventory report released overnight. Today, the focus will be on the IEA's latest outlook for the oil market



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Energy - Higher demand for OPEC oil

Oil prices settled lower yesterday as the market digested the US SPR release announcement, while the YoY US CPI print also came in above expectations, which will have weighed further on prices. The market has continued to trade weaker this morning after some bearish API data was released overnight with US inventories increasing across the board last week. US crude oil inventories grew by 10.51MMbbls, while Cushing crude oil inventories increased by 1.95MMbbls. For refined products, gasoline and distillate fuel oil stocks increased by 846Mbbls and 1.73MMbbls respectively.

OPEC released its latest monthly oil market report yesterday. This showed that OPEC production over January averaged 28.88MMbbls/d, down 49Mbbls/d MoM. Saudi Arabia saw the largest decline over the month with output falling by 156Mbbls/d. For 2023 the group revised lower its non-OPEC

supply growth estimate by 100Mbbbls/d to 1.44MMbbbls/d YoY, while global oil demand growth forecasts were increased by 100Mbbbls/d to 2.32MMbbbls/d YoY. As a result, the call on OPEC production over 2023 is 29.42MMbbbls/d, above January production of 28.88MMbbbls/d. The call on OPEC supply is strongest in 4Q23, standing at 30.43MMbbbls/d. The IEA will release its monthly oil market report today, which will also give the agency's latest outlook for the market.

Bloomberg reports that the European Commission is set to have talks on whether voluntary demand cuts in the European gas market need to be extended beyond March. Previously EU members agreed on voluntary demand cuts of 15% below the 5-year average for the period August 2022 to March 2023. We believe that Europe will need to continue to see demand destruction through the course of the year in order to ensure the market is kept in balance. However, we believe demand cuts needed beyond March can be more modest at around 10%. This assumes we see no further declines in Russian pipeline gas flows to the region.

Metals – Aluminium smelters in Europe still facing challenges

Despite the recent drop in energy prices, aluminium smelters in Europe still face challenges, Norsk Hydro has said. The company's CFO said a further 600,000 tonnes of aluminium capacity is still at risk if we see another spike in energy prices.

Mitsui Mining & Smelting Co., Japan's largest zinc smelter, will raise premiums for Asian ex-Japan buyers for the second year in a row by more than 10% over LME prices for 2023. The company expects zinc supply to remain tight and sees a supply deficit of 150kt in 2023, the third annual deficit in a row. It expects zinc prices to range between \$3,000 and \$3,400/t in the first half of the year.

Agriculture – France raises winter-grain planting estimates

France's agriculture ministry said that French winter-grain plantings for the 2023 harvest are now projected at 6.76m hectares, slightly higher than initial estimates of 6.71m hectares. The latest estimates are up 1.8% YoY, while also remaining 1.7% above the five-year average. Soft wheat area estimates were increased to 4.76m hectares (+2% YoY), marginally higher than the December estimate of 4.75m hectares.

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