

# The Commodities Feed: Middle distillate strength

Oil prices closed marginally lower yesterday. However, gasoil cracks remain firm, suggesting a tight middle distillate market. Natural gas prices came under pressure on the back of forecasts for milder weather



## Energy - natural gas declines

Despite oil prices edging slightly lower yesterday, ICE Brent remains comfortably above US\$80/bbl. And while the prompt Brent time spread weakened yesterday, the general trend this year has been for the spread to move into deeper backwardation, suggesting that the market is tightening. Our balance sheet suggests that we will be seeing marginal tightening, with the market in a relatively small deficit in 1Q24. However, what will be of more interest in the coming weeks is what OPEC+ decide to do with their voluntary supply cuts which expire at the end of March. Our balance sheet suggests that the market will be in surplus in 2Q24 if the group fails to roll over part of these cuts.

The prompt ICE gasoil crack is now trading a little over US\$33/bbl on the back of tightness due to Red Sea disruptions and some refinery outages. The European middle distillate market has been plagued by tightness since Russia's invasion of Ukraine, which has resulted in drastic shifts in

energy flows with the EU banning Russian crude oil and refined products. This has left Europe more dependent on Asia and the Middle East for flows, and these flows are being affected by the Houthi attacks in the Red Sea. Middle distillates are likely to remain well supported in the short term as refineries go into maintenance season.

Natural gas markets continue to come under significant pressure. Front-month TTF futures settled a little more than 5% lower yesterday, taking the market below EUR26/MWh. Weather in North West Europe is forecast to be milder than usual over the next week or so, whilst storage remains comfortable at 67% full. With the end of the heating season quickly approaching, downward pressure is likely to persist. Also not helping sentiment will be the weakness seen in the US gas market. Front-month Henry Hub closed almost 4.3% lower yesterday due to forecasts for warmer weather over large parts of the country.

Along with weaker gas prices, the market is also seeing less volatility. As a result, ICE announced yesterday that it will lower initial margins for front-month TTF futures by 19% to EUR8.67/MWh. The changes will be effective from end-of-day Tuesday.

For the energy calendar today, OPEC will release its monthly oil market report, which will include its latest outlook for the market. It will be interesting to see how OPEC views the market ahead of members deciding what to do with their output policy for 2Q24. In last month's report, OPEC estimated that demand for its oil in 2024 would be 28.5m b/d, which is quite a bit higher than the 26.6m b/d the group is estimated to have produced in January. However, OPEC is estimating that oil demand will grow by 2.25m b/d this year, which does seem fairly aggressive.

## Metals – LME zinc inventories rise

LME zinc inventories increased by 11,050 tonnes (the biggest daily addition since 20 December 2023) to 238,275 tonnes yesterday - the highest since August 2021. The majority of the inflows were reported from warehouses in Singapore. Meanwhile, on-warrant stocks also increased for a fourth consecutive session, rising by 10,850 tonnes to 206,625 tonnes yesterday.

In nickel, Glencore announced plans to sell its stake in a loss-making mine in New Caledonia. The company said that production at Koniambo Nickel SAS (KNS) processing plant will be halted for six months as the plant will be placed in "care and maintenance", while the company initiates a process to identify a potential new industrial partner. The extended weakness in nickel prices has forced many nickel miners to halt or slow down projects recently to cut down on costs.

In aluminium, Russian metal accounted for 90% of live metal inventories on the LME in January, marginally down from 90.4% in December, the latest data from the LME showed. Total Russian primary aluminium stocks stood at 286,750 tonnes in January, down from the 338,375 tonnes reported in December.

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