The Commodities Feed: Natural gas prices surge

Energy markets have managed to avoid the recent weakness seen in equity markets. For oil, there are signs of stronger demand, while for the European natural gas market, there are concerns following recent developments in France related to strike action and nuclear outages

Energy - European gas prices surge

The oil market has continued to move higher in early morning trading today, following a strong close at the end of last week. ICE Brent settled almost 1.5% higher on Friday. The strength in the market comes despite the continued weakness we have seen in equities given concerns over SVB and the broader banking sector. Instead, the market seems focused on a somewhat positive demand picture for oil, while more recently, expectations for Fed tightening have also fallen.

The more positive demand picture is being driven by reports of some strong buying from China and this also ties in with the move that we have seen in the Brent-Dubai spread, which continues to narrow. This makes sense given the demand recovery that is expected not only from China but broader Asia following a relaxation in China's Covid policy late last year.

The latest positioning data shows that speculators increased their net long in ICE Brent by 12,291 lots over the last reporting week to 298,291 lots as of last Tuesday. This move was driven exclusively by fresh buying, rather than short covering. But although we saw buying coming through for Brent, NYMEX WTI saw speculators reduce their net longs by 26,959 lots to 164,292 lots. The more bearish positioning in WTI shouldn't be too surprising, given the scale of inventory builds that we have seen in the US so far this year.

European natural gas prices rallied significantly towards the end of last week. TTF was up around 25% over Thursday and Friday, which has taken the market back above EUR50/MWh. There are several catalysts for the move higher, including ongoing strike action in France which is affecting operations at 4 LNG import terminals. Also in France, EDF discovered some defects at two of its nuclear reactors, which has led to them being halted. And finally, these concerns are coinciding with a cold snap across large parts of Europe. However, for now, EU gas storage is still comfortable at about 56% full, well above the 5-year average of 36% full for this time of year.

Metals – Canada to ban imports of Russian steel and aluminium products

Canada will ban the import of Russian steel and aluminium products, the government said in a press release. The ban will include iron and non-alloy steel, semi-finished and finished products, such as tubes and pipes. It will also include all Russian aluminium products, such as unwrought aluminium, aluminium sheets, and finished products, including containers and other household items made from aluminium. In 2021, Canada imported C$45 million of aluminium and C$213 million of steel products from Russia, the government said.

LME on-warrant aluminium stockpiles fell by 15,775 tonnes to 427,075 tonnes on Friday, the biggest fall since 29 December, according to the latest data from the exchange. Most of the outflows were reported from warehouses in Malaysia and South Korea. Net outflows for the week totalled 28,350 tonnes compared to inflows of 8,350 tonnes a week earlier. Cancelled warrants for aluminium rose by 12,975 tonnes to 121,300 tonnes, while exchange inventories declined for the fifth straight session by 3,625 tonnes to 548,375 tonnes (the lowest level in a month) at the end of last week.

Copper inventories at the Shanghai Futures Exchange warehouses extended their decline for a second consecutive week amid a recovery in industrial demand in China. The latest ShFE data show that copper weekly inventories at the exchange fell by 26,008 tonnes (the biggest weekly decline since 28th October) to 214,972 tonnes as of Friday. Aluminium stocks rose 2.7% WoW to 310,888 tonnes, while lead inventories grew 4.1% WoW to 49,492 tonnes.

Agriculture – Coffee market to remain in marginal deficit

The International Coffee Organization forecasts the global coffee market to witness a marginal supply deficit for a second straight year in 2022/23 majorly due to concern over the arabica crop. Unfavourable weather conditions in Brazil and Colombia (major arabica-producing nations) in the past few years and labour shortages took a toll on yields. The coffee market witnessed a supply shortfall of 4-5m bags in the last season.

The latest fortnightly report from UNICA shows that sugar cane crushing in Centre-South Brazil stood at 72kt for the second half of February, down 55% from a year ago. The cumulative cane crush rose 3.8% YoY this season to stand at 542.5mt. Meanwhile, sugar production stood at just

381t over the fortnight, with around 4.82% of cane allocated to sugar production. Cumulatively, sugar production rose by 4.5% YoY to 33.5mt.CS Brazil is in the middle of its off crop and the new season is set to start in a couple of weeks.

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