The Commodities Feed: Natural gas surprises

While European natural gas prices strengthened yesterday, the market has been under pressure for much of the last week as milder weather and growing storage ease immediate supply concerns. Recent price weakness could provide some support to demand, which could leave the market more vulnerable in 2023

Energy - negative gas prices during an energy crisis

The oil market has come under pressure in early morning trading today and this follows a relatively bearish API release overnight. The API reported that US crude oil inventories increased by 4.52MMbbls over the last week, quite a bit more than the roughly 1.5MMbbls build the market was expecting. In addition, Cushing crude stocks are reported to have increased by 740Mbbls. On the products side, gasoline inventories fell by 2.28MMbbls, whilst distillates stocks increased by 635Mbbls. The more widely followed EIA report will be released later today.

The Saudi energy minister this week has continued to defend the recently announced OPEC+ supply cuts, saying that the gloomier macro outlook justified the action taken by the group. The energy minister also criticised the use of emergency stockpiles by importers in an attempt to lower oil prices. The minister warned that drawing down on these stockpiles now could be "painful" in the months ahead. Given the price action since OPEC+ announced cuts, some could argue that it has helped to stabilise prices in the immediate term. However, with cuts set to last until the end of

2023, the market is expected to tighten over the course of next year.

It may be surprising that in the middle of an energy crisis (specifically in natural gas), that we have seen moments of negative gas prices this week. At the start of this week, we briefly saw TTF next hour prices fall into negative territory as milder than usual weather across Europe means weaker heating demand, whilst EU storage continues to increase with it now close to 94% full. Weakness in spot prices has weighed on much of the forward curve, although, TTF prices early next year are still trading above EUR140/MWh, compared to day ahead prices of around EUR40/MWh. The risk with the sell-off in the European gas market is the potential that demand starts to pick-up. Already there are reports that fertilizer producers in Europe are easing curtailments, given the recent weakness that we have seen in gas prices. If this is part of a broader trend that we see in European demand, it makes it increasingly difficult for Europe to rebuild storage to comfortable levels ahead of the 2023/24 winter.

In the US, natural gas prices in West Texas moved into negative territory, with pipeline maintenance work in the region limiting takeaway capacity at a time when natural gas output in the Permian region is growing. Next day prices at the Waha hub reportedly fell to negative $2/MMBtu on Tuesday.

Metals – LME copper on-warrant inventories fall

The latest data from the LME shows that on-warrant stocks for copper continued to decline for a third consecutive day, hitting the lowest level since April. Total on-warrant inventories decreased by 4.3kt over the day to 58kt, whilst the decline since early October has been even more impressive, falling by almost 79kt. The cash/3m spread has strengthened as a result - with it trading at a backwardation of US$133/t earlier this week, up from a backwardation of a little over US$40/t earlier this month.

The latest data from the World Steel Association (WSA) shows that global steel output rose 3.7% YoY to 151.7mt in September. The majority of the increase came from Asia and the Middle East. Meanwhile cumulative output over the first nine months of the year fell 4.3% YoY to 1,405mt. Chinese steel production gained 17.6% YoY and 3.7% MoM to total 87mt in September. Year-to-date Chinese steel output is down 3.4% YoY to total 781mt.

Agriculture – UNICA reports higher cane crush

The latest fortnightly report from UNICA shows that sugar mills in Brazil's Center-South region crushed more cane in the first half of October than last year, although cumulative output still lags last season after a delayed start to crushing. UNICA reported that sugar cane crushing in the region increased 40.5% YoY to 27.7mt over the first half of October, whilst cumulative crushing so far this season is down 5.9% YoY to total 458.7mt. Sugar production increased 59% YoY to 1.8mt in 1H October, with around 48.3% of cane allocated to sugar production. Cumulative sugar output is down 7.3% YoY, to total 28.2mt.

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