

The Commodities Feed: Natural gas under pressure

European natural gas prices have come under pressure with storage basically full ahead of the heating season



Energy - Natural gas under pressure with full storage

The oil market strengthened yesterday after both Saudi Arabia and Russia confirmed that their additional voluntary cuts will continue through until the end of the year- something the market was widely expecting. What will be of more interest to the market is whether they will extend these cuts into early 2024 or start to bring this output back. We should get clarity on this sometime in early December. The confirmation of cuts saw ICE Brent settle a little more than 0.3% higher on the day, although the market was up more than 1.8% at one stage yesterday.

Saudi Aramco left its official selling price (OSP) for Arab Light into Asia unchanged at US\$4/bbl over the benchmark for December. This was largely in line with market expectations. Meanwhile, their extra light grade and heavy grades into Asia were increased by US\$0.70/bbl and US\$0.30/bbl respectively. As for the US, OSPs for all grades were left unchanged, while for Europe, all grades were cut by US\$2.30/bbl MoM.

The first batch of Chinese trade data will be released later today, which will include crude oil imports. Oil imports into China have been strong so far this year despite broader concerns about the Chinese economy. Imports over the first nine months of the year averaged 11.39MMbbls/d, up 14.5% YoY. These stronger imports reflect a fair amount of stock building,

although we have also seen robust apparent oil demand in the domestic market.

European natural gas prices came under pressure yesterday with the TTF front-month contract settling a little more than 6.7% lower on the day and trading to its lowest level since early October. Short-term fundamentals remain bearish with storage continuing to edge higher. European gas storage is now more than 99.6% full, which is a record level. All eyes will be on when the heating season gets underway and storage starts to draw, particularly given that storage is essentially full.

Metals – Iron ore climbs

Iron ore prices saw further strength yesterday with prices remaining comfortably above US\$120/t. Expectations of rising demand in China's end-use industry in the fourth quarter have been supporting the raw material in recent weeks. In addition, iron ore inventories at ports in China remain low at around 107mt, this is down from a peak of almost 143mt in February and also around 21% lower than the 5-year average for this time of the year. Meanwhile, recent reports suggest that the Chinese central government will increase its debt responsibilities to ease funding pressure on local governments, which provided an additional boost to the metals complex yesterday.

Recent data from the China Iron and Steel Association (CISA) shows that steel inventories at major Chinese steel mills fell to 13.8mt (lowest since December) in late October, down 16.6% compared to mid-October. Meanwhile, crude steel production at major mills reached year-to-date lows and fell 5.7% from mid-October to 1.92mt/d in late October, primarily due to persistent pressure on steel mill's profit margins. However, production is expected to pick up as margins have started showing signs of recovery more recently.

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