The Commodities Feed: No respite for the complex

The move higher in the USD has been unrelenting and this continues to weigh heavily on the commodities complex. Macro drivers remain firmly in the driving seat, while supply risks continue to be largely ignored across markets

Source: Shutterstock

Energy- Russian oil price cap hits a stumbling block

The oil market came under further pressure yesterday as the USD continued to march higher. ICE Brent settled more than 2.4% lower on the day, leaving it to close below US$85/bbl. OPEC+ members have been oddly quiet in this latest sell-off. However, we are likely to hear a growing amount of noise in the lead-up to the OPEC+ meeting on 5 October. The group will likely be getting uneasy with the degree of weakness that we have seen in the market and so there is the very real possibility that we see OPEC+ announce supply cuts in order to support the market. Clearly though, if we are to see cuts, they will need to be quite a bit larger than the 100Mbbls/d agreed at the last meeting in order to have a meaningful impact on the market.

It appears that the EU will delay the planned Russian oil price cap due to disagreements between EU members. According to reports, both Cyprus and Hungary oppose the idea of a price cap, and in order to be adopted, all members need to agree. The European Commission had been wanting the price cap to be enforced at the same time as the EU ban on Russian seaborne crude oil, which comes into effect on 5 December. Clearly, given the latest delay, this may not happen now.

In the US, Hurricane Ian has led to the shut-in of some oil production in the US Gulf of Mexico. Both Chevron and BP have evacuated and shut a couple of platforms each.

European natural gas has also been unable to avoid the weakness across the commodities complex. TTF fell by more than 6% yesterday and recorded its fourth consecutive day of settling lower. Meanwhile, the European Commission is still looking into the possibility of a price cap for natural gas. If the EU was to go down this route, it would not help solve the tightness in the gas market, as this move will likely only support gas demand. Spain introduced a price cap on gas used for power generation earlier this year, which unsurprisingly led to higher demand for gas.

Metals – gold enters bear market

A rallying USD and surging treasury yields continue to put pressure on gold prices. Spot gold came off more than 1.3% yesterday, which saw it trading to its lowest levels in more than 2 years. Yesterday's weakness also meant that the gold market entered a bear market, as it is now down more than 20% from its recent peak in March. Given the expectation that the Fed will continue to aggressively hike through this year, it is difficult to hold a constructive view on gold in the short term. We would need to see inflation coming off significantly before becoming more constructive towards the market. A meaningful fall in inflation could start to signal that the Fed will take a less aggressive approach in terms of hiking.

Anglo American has announced the start of commercial operations at its Quellaveco copper mine in Peru with a copper production target of around 80-100kt this year at a c1 cash cost of around US$3,300/t. Previously the company was targeting output of around 100-150kt at a cash cost of around US$3,000/t. However operational constraints appear to have delayed the mine start and ramp-up. However, the miner continues to target around 320-370kt of copper production by 2023 and 2024 as the mine ramps up gradually. Meanwhile, the company has also reduced its copper production target in Chile to around 560-580kt for the current year compared to earlier estimates of around 560-600kt

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