

## The Commodities Feed: Oil resists risk-off move

The oil market managed to settle higher yesterday, going against the broader risk-off move seen in markets. The data calendar is fairly quiet today with just the usual EIA inventory numbers out later



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### Energy - Gasoil cracks weaken

Despite the heavy sell-off in equities yesterday, along with further strength in the USD, ICE Brent managed to settle a little more than 0.7% higher on the day. The price action suggests that tightening fundamentals are largely driving the market at the moment. Although clearly, external influences will be providing some headwinds to the oil market.

Overnight the API released its latest US inventory numbers. Overall the report was largely neutral with crude oil inventories rising by 1.59MMbbls over the week, while gasoline inventories fell by just 70Mbbls. More supportive numbers from the release were the 1.7MMbbls decline in distillate fuel oil stocks and the 828Mbbls decline in Cushing crude oil inventories. The decline in inventories at the WTI delivery hub continues to see the prompt WTI spread trade into deep backwardation and it is currently trading at over US\$1.60/bbl. The more widely followed EIA inventory report will be released later today.

Gasoil cracks have continued to come under pressure this week despite the [Russian export ban on diesel and gasoline](#). The November ICE gasoil crack is holding just above US\$30/bbl. The lack of sustained strength in the gasoil market following the announcement appears to reflect expectations that the Russian ban will not remain in place for very long given domestic storage constraints. In recent days we have already seen the Russian government tweaking the ban by allowing the export of low-quality diesel and bunker fuel.

## Metals – LME copper spreads widens

LME copper cash/3m spread widened to a record contango of a little more than US\$70/t this week (although this narrowed to a little less than US\$57/t yesterday) as copper demand in the physical market remains under pressure due to slower industrial activity in China and elsewhere. Tepid demand has led to a significant increase in exchange inventories. LME copper inventories increased to a fresh one-year high of 164kt with inflows of around 110kt since mid-July. Meanwhile, LME data shows that speculative net longs in LME copper dropped by 12,501 lots over the last week with their net long position falling to a 3-month low of 43,441 lots as of 22 September.

The latest data show that China's gold imports from Hong Kong increased to 45.2 tonnes over August compared to around 30.2 tonnes in July as demand for precious metals remains strong in the domestic market. Cumulatively, China's gold imports from Hong Kong increased by 36% YoY to 359 tonnes over the first eight months of 2023. Looking ahead, gold demand in China is likely to have improved further this month as reflected by the high premium for gold in the local market. Shanghai gold currently trades at a premium of around US\$100/oz over international prices.

## Agriculture – Weaker Ivorian cocoa exports

The latest data from Ivory Coast's Customs Department shows that cocoa exports dropped by around 10% YoY to 1.3mt in the current season through until the end of July (the season runs from October to September). Adverse weather and the spread of the swollen shoot virus have impacted the domestic cocoa crop. Virus and disease risks remain for 2023/24 as well, which could keep supplies tight for next year. Other major African producers, including Ghana and Nigeria have also been facing similar supply issues this year with both production and exports declining.

UNICA data shows that sugar cane crushing in Center-South Brazil was up 5.3% YoY to 41.8mt over the first half of September; although the pace of the crush did slow from the second half of August where we saw 46.5mt of cane crushed. Similarly, sugar production was up 8.5% YoY to 3.1mt over the first half of September. The sugar mix increased to 51.1% in 1H September, up from 50.7% in 2H August. Cumulative sugar production in Center-South Brazil has increased by 18.7% YoY to 29.3mt for the current season with 49.4% of sugar cane used for sugar production compared to 45.5% a year ago. Higher sugar prices amid supply uncertainty from India and Thailand has clearly sent the signal to Brazilian mills to favour sugar production over ethanol.

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