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COMMODITIES DAILY

The Commodities Feed: Oil sanctions risk

Oil prices have been better supported recently on the back of reports that the US is potentially looking to impose further sanctions against Russia, which could target oil



Energy – Sanctions risk

Oil prices firmed further yesterday, with ICE Brent settling more than 1.8% higher on the day, and this strength has continued this morning. This was after reports that the Biden administration is looking at potentially imposing further sanctions on Russia, including targeting oil and its shadow tanker fleet. A more comfortable oil market provides the opportunity to tighten sanctions on Russia. However, while they might want to target some Russian oil export volumes, they do not wish to cut off the bulk of these flows as this would push the market into a deep deficit, pushing prices significantly higher.

US CPI numbers yesterday would have only reinforced the view that the Fed will likely cut interest rates by 25bp at its meeting this month with core inflation coming in at 0.3% MoM. However, stickier inflation does mean the Fed may be more cautious through 2025 with its easing cycle.

US weekly inventory numbers from the EIA yesterday showed that commercial crude oil inventories fell by 1.43m barrels over the last week, compared to a 499k barrel build the API reported the previous day. While crude imports fell 1.31m b/d WoW, crude exports also

declined by 1.14m b/d WoW. Meanwhile, Cushing crude oil stocks fell by 1.3m barrels over the week, leaving them at their lowest level for this time of year since 2007. Refined products were more bearish with gasoline and distillate inventories increasing by 5.09m barrels and 3.24m barrels respectively.

OPEC released its latest monthly oil market report yesterday, where the group took the opportunity to revise down their demand growth forecasts once again. OPEC lowered its 2024 demand growth estimate by 210k b/d to 1.61m b/d, while for 2025, demand growth estimates were cut by 90k b/d to 1.45m b/d. These revisions do not come as a surprise as OPEC has been more aggressive than the rest of the market when it comes to demand. As for OPEC production, the group increased output by 104k b/d MoM to 26.66m b/d in November. This increase was largely driven by Libya, which saw output grow 141k b/d MoM. The IEA will be releasing its monthly oil market report later today.

European natural gas prices came under pressure yesterday. TTF settled almost 1.9% lower on the day. Weather forecasts are showing milder weather for large parts of Europe next week. This should help ease some concerns in the market. Participants have been worried about the pace that storage has been drawn so far during the heating season. European gas storage is 81% full, down from 91% at the same stage last year and also below the 5-year average of 83%. The latest positioning data shows that investment funds cut their net long in TTF from a record high of 294TWh to 268TWh over the last reporting week.

Metals – Chile sees copper surplus in 2025

The latest estimates from the Chilean copper commission, Cochilco, show that the global refined copper market will remain in a supply surplus of 81kt this year and 76kt in 2025. The group further added that global copper mine production is likely to rise by 3.9% YoY next year, although there are risks. Looking at consumption, Chinese copper demand is expected to increase marginally by 1% YoY, whereas the rest of the world will witness an expansion of 4.1% YoY in 2025. Meanwhile, copper output in Chile is expected to rise by 3% YoY to 5.4mt this year and a further by 6% YoY to 5.7mt in 2025. This year's copper production probably will fall short of the set target due to project delays. However, Chile aims to strengthen its domestic smelting capacity for copper, despite the abundance of Chinese capacity and a series of mine disruptions seen in the recent past.

Agriculture – Coffee declines on uncertain crop outlook

Arabica coffee prices sold off yesterday after reaching record highs. The front-month contract settled more than 4% lower on the day. There is plenty of uncertainty over the upcoming Brazilian crop due to drought conditions over much of the year. Although, growing regions have received more typical rain recently and much will depend on how weather plays out over the remainder of the rainy season. Looking at inventories, and the latest official data shows that Arabica coffee stocks at port warehouses monitored by ICE Exchange have increased for a

second straight session to 919.4k bags (the highest since 29 June 2022) as of yesterday.

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