

## The Commodities Feed: Rising energy prices lead to more pain

European natural gas prices continue to strengthen, which is having an impact on industrial output in the region. Yesterday, yet another metal smelter in Europe announced that it would halt production due to "external factors"



Zinc ingots at a warehouse

### Energy - expectations for a nuclear deal grow

Downward pressure on the oil market continued yesterday, with expectations of a positive outcome in Iranian nuclear talks growing. The market is positioning itself as though a deal is on the cards, but the risk is that if parties fail to come to a deal, we would likely see a reversal in the recent price action. While Iran appears fairly positive on a deal, it is still unknown where the US stands with the proposal. Given the more recent weakness that we have seen in oil and gasoline prices, the US may be less willing to make big concessions.

API numbers released overnight have provided some support to the market this morning. US crude oil inventories are reported to have declined by 448Mbbls - the drawdown in gasoline stocks was more significant, falling by 4.48MMbbls over the week. It is the gasoline number which is providing some support to the market this morning. The more widely followed EIA numbers will be released later today and the market is expecting a crude build of around 800Mbbls and a gasoline draw of

around 1MMbbls. Similar numbers to the API could provide some further immediate support to prices.

European gas prices have continued to strengthen. TTF briefly traded above EUR250/MWh yesterday, as the ever present supply concerns are coupled with stronger demand due to the ongoing heatwave in the region. While EU members last month agreed on the Commission's proposal for a voluntary demand cut of 15% vs. the 5 year average between 1 August 2022 and 31 March 2023, countries will likely not need to enforce this. This is due to the fact that the current high price environment will likely ensure that we see the necessary demand destruction. Meanwhile, reduced Russian gas flows are unsurprisingly having an impact on Russian gas output. Gazprom reported yesterday that its YTD gas production (until 15 August) declined by 13.2% YoY, whilst exports over the period were down 36.2% YoY.

## Metals - high EU power prices lead to further smelter closures

LME zinc 3M prices jumped to an intra-day high of US\$3,819/t yesterday and settled more than 3% up on the day. This is after Nyrstar announced that it would halt operations at its Budel smelter in the Netherlands. The smelter will be placed on care and maintenance starting from 1 September and for an indefinite period. The smelter, which has a nameplate capacity of 315ktpa and accounts for around 2% of global supply, was already operating at reduced rates due to the ongoing power crisis in Europe. LME exchange inventories are already tight, having fallen by more than 124kt since the start of the year, leaving them at just 75kt. Therefore, the market has a very thin buffer to sustain any further supply shocks. It appears as though it will be a challenging environment for metal producers in Europe (from a cost perspective) for the foreseeable future, given that energy prices are likely to remain elevated.

The London Metal Exchange yesterday banned the delivery of Russian nickel brands (including Nor Nickel) into its approved UK warehouses. The ban is imposed on any nickel exported after 20 July. The move shouldn't come as too much of a surprise, given that we had previously seen the same action taken for a number of other LME metals. Given that there is no nickel in approved LME UK warehouses affected by the suspension, this move should have no impact on nickel prices.

## Agriculture - Ukraine grain exports remain weak in 1H August

The latest data from Ukraine's agricultural ministry shows that Ukraine exported 948kt in the first half of August, down from 1.88mt in the same period last year. Cumulative exports have fallen 46% YoY to 2.65mt in the 2022/23 season, despite unblocked ports. Bloomberg reports that Ukraine shipped 563kt of crops in 1H August under the Black Sea export corridor from Odesa, Chornomorsk and Pivdennyi. Corn made up the bulk of these volumes, with 451kt exported, whilst just 42kt of wheat was shipped. Turkey, Iran and South Korea were the top destinations for these shipments. Ukraine's deputy infrastructure minister believes that 3mt of grains could be exported from ports in September.

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