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COMMODITIES DAILY

The Commodities Feed: Rising US oil inventories and falling OPEC+ production

Oil prices continue to be well supported amid ongoing supply uncertainty

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Energy – OPEC+ output falls in January

Oil prices remain well supported, with $70/bbl back in sight for ICE Brent. Lingering uncertainty over Iran continues to buoy the market. Meanwhile, refinery margins also saw some strength following reports of a Ukrainian drone attack on Lukoil's 300k b/d Volgograd refinery in Russia – the first large attack on Russian refining infrastructure this year.

While the Energy Information Administration (EIA) released bearish numbers yesterday, the market largely ignored them. US crude oil inventories increased by 8.53m barrels over the last reporting week, the largest increase since January 2025. Domestic production is estimated to have increased by 498k b/d WoW, recovering from the impact of the recent US winter storm. Meanwhile, crude oil exports fell by 308k b/d WoW, while imports increased by 604k b/d. For refined products, gasoline stocks increased by 1.16m barrels, while distillate fuel oil stocks fell by 2.7m barrels, with distillate demand hitting its highest levels since January 2025.

In its latest monthly market report, OPEC kept its demand growth forecasts unchanged for 2026 and 2027 at 1.38m b/d and 1.34m b/d, respectively. These numbers remain above most other demand growth forecasts. Meanwhile, OPEC+ output came under pressure in January, falling 439k b/d MoM to 42.45m b/d. This decline was driven by Kazakhstan, which saw disruptions to upstream production in late January and loadings from the CPC terminal, while there were also declines from Venezuela, Iran and Russia.

Kazakhstan's oil output will recover through February, with the power issues that disrupted production in January at the Tengiz and Korolev oilfields resolved. Meanwhile, the completion of repair work at the CPC terminal should also lead to a recovery in loadings from the terminal. Reports suggest that February loadings are expected to come in between 1.15-1.25m b/d, up from 907k b/d in January, but lower than originally expected as production from the Tengiz field recovers gradually. Meanwhile, March loadings are expected to be somewhere between 1.55-1.65m b/d. A recovery in exports from the CPC terminal should help ease some of the tightness we have seen in the oil market so far this year.

Canadian crude oil discounts on the US Gulf Coast continue to widen, with Canadian heavy Cold Lake crude trading at a discount of more than $8.60/bbl to WTI. This weakness comes as we see US Gulf refiners turning increasingly towards Venezuela for heavier crude grades. However, these increased flows are yet to be reflected in preliminary weekly import data from the EIA.

India is also showing increased interest in Venezuelan crude oil, with refiners having bought a cargo for arrival in April. The Indian government has reportedly asked state refineries to buy more US and Venezuelan oil following the US-India trade deal. This would allow refiners to further reduce purchases of Russian oil. According to the US, as part of the trade deal, India has agreed to stop purchasing Russian crude. The degree to which India reduces these purchases, and the ability of Russia to divert this volume to other buyers will be important for the oil market.

The latest positioning data shows that investment funds reduced their net long in TTF natural gas by 15.1TWh over the last reporting week to 109.7TWh. This is the first weekly decline since mid-December. And while EU gas storage is relatively tight at less than 36% full, supply concerns have eased somewhat following the passing of the US winter storm.

Investment funds also cut their net long in EU allowances (EUAs) by 6.62k contracts to 93.99k contracts over the last reporting week, down from a peak of 126k contracts in mid-January and the smallest net long since late October 2025. The market is becoming increasingly nervous over headlines for a delayed phase-out of free allowances and the potential for a reduction in the linear reduction factor for the EU ETS cap. However, this is not entirely fresh news, with suggestions for potential changes already known in December. Meanwhile, comments yesterday from German Chancellor Friedrich Merz wouldn't have helped sentiment in the market, with him saying that the region should be open to revisions or postponements in the ETS if it doesn't push companies towards carbon-free production.

Metals – Nickel climbs on Indonesia output cuts

Nickel rallied after Indonesia signalled a sharp reduction in ore output for 2026, lifting LME prices to a near two-week high. PT Weda Bay Nickel was assigned an ore quota of just 12mt this year, significantly lower than the 42mt it received in 2025, according to a Bloomberg report. Indonesia will issue national production quotas of 260-270mt, only slightly above earlier estimates but well below the 379mt targeted last year. Nickel has now surged more than 25% since mid-December, supported by tightening supply expectations.

However, demand is weakening as China moves rapidly toward nickel-free LFP batteries, preventing any meaningful tightening in the market. Without a rebound in nickel-rich chemistries adoption, upside remains limited.

Agriculture – Sugar prices fall on surplus prospects

Sugar prices declined further, with the No.11 raw sugar March 2026 contract falling almost 2% yesterday to settle at USc13.84/lb – the lowest since October 2020. Expectations of a large global surplus this season are weighing on prices, while CS Brazil is expected to see another strong season when the 2026/27 harvest gets underway in April. Sugar prices are trading below Brazilian ethanol parity to help resolve the large surplus. This will likely need to continue through the year so that mills allocate more cane towards ethanol production.

There are reports that cocoa traders in the Ivory Coast are delaying purchases of beans from the upcoming mid-crop, as they wait for the industry regulator to lower prices. The prices being offered to traders are well above international prices. Meanwhile, Ghana is also trying to deal with the collapse in cocoa prices, holding an emergency meeting to discuss potential measures. Global prices are now well below what Ghana had been paying farmers, forcing them to stop purchases.

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