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COMMODITIES DAILY

The Commodities Feed: Stronger middle distillates

Oil prices strengthened on the back of stronger buying in the physical market. However, a more hawkish tone from the US Federal Reserve will likely provide some resistance to the market



Energy: Middle distillate strength

The oil market strengthened yesterday with ICE Brent settling a little more than 1.6% higher on the day. Stronger buying from Asian refiners more recently has been supportive, whilst Chinese monetary easing earlier in the week has also been helpful. The move has seen Brent trade back above the 50-day moving average. However, hawkish comments from the US Fed chairman overnight suggest that oil might struggle to hold onto this momentum in the immediate term.

API numbers released overnight show that US crude oil inventories fell by 1.2MMbbls over the last week, whilst the market was expecting a small build of around 450Mbbls. Meanwhile, gasoline inventories increased by 2.9MMbbls, whilst distillate stocks fell by 301Mbbls. The more widely followed EIA numbers will be released later today.

Middle distillates continue to enjoy some strength with the prompt ICE gasoil crack trading above US\$20/bbl, whilst the prompt ICE gasoil timespread has also traded into deeper

backwardation, almost hitting US\$20/t earlier this week. Gasoil inventories in the ARA region continue to trend lower (after the strong build late last year/earlier this year), which has seen levels fall below the five-year average for this time of year. Refinery maintenance in the Mediterranean and some unplanned outages in Europe recently have provided some support to middle distillates. This support may persist in the short term, however, the eventual return of disrupted capacity and the ramping up of new capacity in the Middle East should help ease this short-term tightness.

Metals: Global steel output declines

The latest data from the World Steel Association (WSA) shows that global steel production fell 5.1% year-on-year to 161.6mt in May, while cumulative output declined 1.2% YoY to 786mt in the first five months of the year. In the EU, monthly crude steel output fell 11.2% YoY to 11.6mt last month. Meanwhile, Chinese steel production fell 7.3% YoY to 90.1mt in May as domestic mills reduced production due to weak margins and stringent production curbs from local authorities.

The International Copper Study Group's (ICSG) latest update shows that the global copper market remained in a supply surplus of 32kt in April. As a result, the ICSG estimates an apparent surplus of 384kt in the first four months of the year, compared to a deficit of 43kt during the same period last year. Global mine and refined copper production increased by 2.5% YoY and 8% YoY, respectively, while overall apparent refined demand increased by 3% YoY in the first four months of the year.

In terms of nickel, the latest LME data shows that warehouses in the US witnessed their first inflows of the metal since September 2021. It is reported that 1,500 tonnes of bagged pellets were delivered to Baltimore warehouses. Total LME stocks in the US are now at 1,506 tonnes, the highest since 2022. Total LME nickel inventories stand at 39,156 tonnes, with the majority of this stored in Asian warehouses.

Agriculture: Weather concerns boost grains

Weather concerns in both the US and Europe saw grain markets rally significantly yesterday. CBOT corn and wheat both closed more than 5% up on the day. Dry weather in the US has seen the condition of the corn crop deteriorate, whilst there also appears to be further downside to the upcoming Russian wheat crop. In addition, Ukraine has voiced its concerns over the Black Sea Grain Initiative and highlighted the risk that the deal may not be extended. The deal is set to expire in mid-July, and as we have seen numerous times over the course of the initiative, Russia has threatened to pull out of the deal.

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