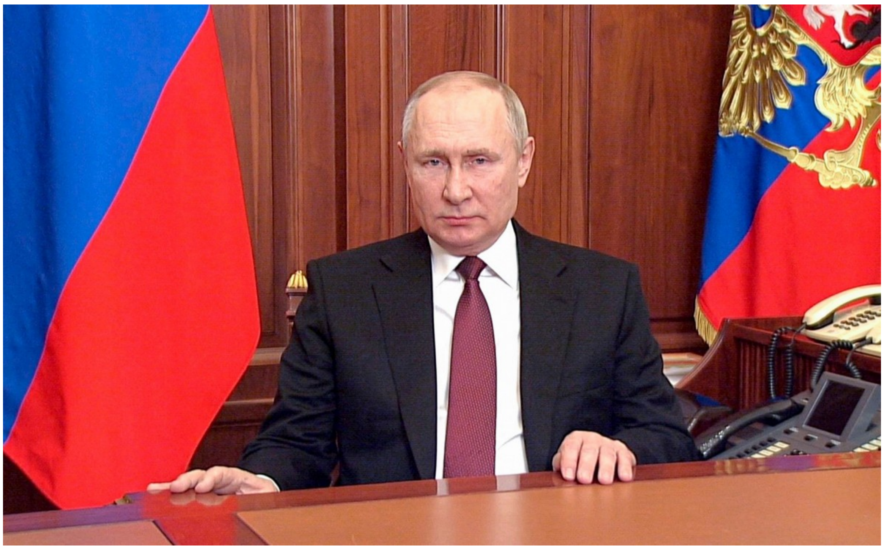
# The Commodities Feed: Supply risks grow

The macro picture continues to weigh on the commodities complex and the hawkish FOMC meeting certainly hasn't helped. However, there are clear supply risks still facing the market following Putin's latest escalation



Russian President Vladimir Putin

## Energy: supply uncertainty grows

Energy markets had a choppy day yesterday. Overall sentiment in the market remains negative following the US Federal Reserve rate hike and expectations that the Fed will be more aggressive in terms of tightening over the remainder of the year. This does add to a gloomier demand outlook. However, there are still clear supply concerns in the market. This was highlighted yesterday following Putin's announcement of a "partial mobilisation" and plans for sham referenda across parts of Eastern Ukraine. This is a clear escalation and raises concerns over what the implications could be for Russian energy flows. There is the potential that we see the West having to become more aggressive in terms of energy sanctions or the potential for Putin to weaponise energy even further. For natural gas, Russia has limited leverage left, given that flows to the EU are down around 70% year-on-year. Where Russia has more leverage is oil, but even this will reduce in the coming months as the EU's ban on Russian oil and refined products comes into effect.

Yesterday's weekly EIA report showed that US commercial crude oil inventories increased by 1.14MMbbls over the last week. However, total US crude oil inventories fell by 5.76MMbbls when taking into account the release of stocks from the Strategic Petroleum Reserve (SPR). This again highlights the effectiveness of the significant SPR releases we have seen this year in limiting the drawdown in commercial inventories. However, when the SPR releases come to an end, there is clearly the risk that we start to see large commercial inventory drawdowns once again, which would be supportive for prices. As for refined products, gasoline and distillate fuel oil stocks increased by 1.57MMbbls and 1.23MMbbls, respectively. Stronger refinery activity and weaker implied demand (for gasoline) likely contributed to these stock builds.

There are reports from a local consultant in China that the government has approved 15mt of refined product export quotas. There have been reports circulating for weeks that the government was looking to release further quotas in a bid to support economic growth. If these latest reports are confirmed, this will be a big deal for product markets, with it equating to around 1MMbbls/d of refined product supply for the remainder of the year. This should offer some relief to middle distillate markets, which have been extremely tight this year.

## Metals: LME copper stocks jump by most since June

Base metals drifted lower yesterday ahead of the US rate hike decision, while a stronger USD put only further pressure on metal prices. Adding to the downbeat sentiment, Rio Tinto commented that copper's short-term outlook "might look a little bit challenged" as decades-high inflation and snarled supply chains hit demand.

Meanwhile, copper inventories held in London Metal Exchange warehouses rose 10%, the biggest increase since 27 June. Large increases in metal immediately available to withdraw were seen in Europe, Asia and the US. Total stockpiles rose to 118,000 tonnes – the highest since August. On-warrant copper inventories increased 12% to 106,125 tonnes. The increase has put some pressure on spreads, with the cash/3M backwardation narrowing from US$68/t to US$59/t.

## Agriculture: wheat rallies on the back of Putin's comments

CBOT wheat rose yesterday as Putin announced a "partial mobilisation" and threats to use "all means available" to defend Russian territory, escalating the ongoing tensions between the nations. The statement also raised further uncertainty over the extension of the ongoing Black Sea grain supply agreement. Looking at shipments, the latest data shows that Ukraine's wheat exports stood at 2.3mt as of yesterday for the 2022/23 marketing year, down from 7.2mt at this point in the season last year. However, corn shipments reached 3.95mt during the same period, compared to 1.39mt for the same period last year.

Meanwhile, reports suggest that China booked as much as 3mt of soybean in the last two weeks from Argentina, which is not far off the total volume that China imported from Argentina last year. A devaluation in the Argentine peso appears to have prompted this stronger buying interest for Argentine beans.

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