

The Commodities Feed: Supply risks grow

Russia's bombing of port infrastructure along the Danube river in Ukraine has pushed grain prices significantly higher. This escalation risks spilling over into other parts of the commodities complex, particularly energy



An image released by the Ukrainian military said to show a damaged port infrastructure on the Danube River in the Odesa region

Energy – Oil marches higher

Having struggled to break convincingly above US\$80/bbl over the last week or so, Brent settled above US\$82/bbl yesterday and in doing so broke above the 200-day moving average. The market would have taken comfort from China's Politburo meeting where the government said it would provide further support to the property sector, stimulate consumption and tackle local government debt. China is key for global oil demand growth this year and the market has been getting increasingly concerned over the weaker-than-expected economic recovery, so any support measures will be helpful in easing some of these concerns.

On the supply side, whilst remote for now, risks are growing following Russia's escalation and bombing of Ukrainian port infrastructure along the Danube River. Whilst this is not a direct threat to energy markets, there are worries that this could spill over into other markets, particularly after Ukraine last week said that any ships heading to Russian Black Sea ports could be treated as potential military targets (in response to a similar statement from Russia). Russia ships almost

500Mbbbls/d from the Black Sea port of Novorossiysk, while the CPC terminal in the port exports around 1.2MMbbbls/d of Kazakh oil. Therefore, it is not too surprising that the market is starting to become a little nervous over a potential supply disruption, even if it is a remote risk for now.

In addition, stronger refinery margins are likely adding to some optimism over demand, although the strength in refinery margins appears to be more supply-driven than demand-driven at the moment. The strength has been driven predominantly by gasoline and middle distillate cracks, while fuel oil cracks are also holding relatively firm. European gasoline cracks have hit US\$30/bbl, the highest levels since July last year.

The strength in the gasoline market has been blamed on several factors, including tightness in the octane market, while hot weather in parts of Europe also appears to have led to some refinery disruptions. The initial strength in margins was driven by middle distillates, which would have led to some yield switching (gasoline to gasoil), however the more recent relative strength in gasoline could now see yields switching back (gasoil to gasoline). As a result, this is also offering continued support to middle distillate cracks. In addition, in the US, an unplanned outage at Exxon's 540Mbbbls/d Baton Rouge refinery, the fifth largest refinery in the US, is also providing some strength to margins.

European natural gas prices also rallied significantly yesterday with TTF settling 8.5% higher on the day, taking it back above EUR30/MWh. There will be concerns over what further escalation in Ukraine could mean for the small but still important amount of Russian pipeline gas that runs through Ukraine into the EU. Fundamentally though, the European market remains in a very comfortable position with storage almost 84% full. While uncertainty may provide support to prices in the near term, we expect prices to come under pressure over much of the third quarter, given storage will be full well ahead of the next heating season (assuming no significant supply disruptions).

Metals – Further Chinese support measures

China's Politburo meeting brought some optimism back into metal markets with the promise of additional support measures for the property sector. However, a stronger dollar capped the rally, while the market still needs to see what actual policies the government announces. Signs of weakening in European manufacturing further weighed on market sentiment yesterday.

Nickel output at Nornickel fell 4% quarter-on-quarter to 45kt in the second quarter, while cumulative production was down 9% year-on-year at 91kt in the first half of the year. The decline in output was primarily due to planned repair work at the Nadezhda metallurgical plant and a grinding mill at the Talnakh concentrator in the first quarter. The company expects production guidance for nickel at 204kt-214kt for 2023. Among other metals, copper output fell by 13% QoQ to 94.89kt, while palladium production increased by 6% QoQ to 761koz in the second quarter of the year.

Agriculture – Grain supply risks grow

CBOT wheat rallied more than 8.5% yesterday, while corn prices also moved higher. This comes after Russia attacked Ukrainian port infrastructure along the Danube River. Ukraine has increasingly relied on the Danube for shipments since the war, and after Russia pulled out of the Black Sea Grain deal, Ukraine was set to rely even further on this route. This does make it more difficult for Ukraine to export grains and potentially leaves exporters more reliant on moving grain

westwards by rail and road. However, obviously, there are logistical constraints redirecting flows via these routes. |

In addition, there are concerns in neighbouring EU countries over the inflow of Ukrainian grain. However, up until now Ukrainian exports are still stronger year-on-year. Recent data from Ukraine's Agriculture Ministry show that grain exports so far this season stand at 1.66mt, up 19% YoY. This includes wheat exports of 563kt, up 73% YoY, and corn exports of 915kt, down 3% YoY. These export volumes will be watched closely in the coming weeks given recent developments.

The United States Department of Agriculture's latest weekly crop progress report shows that 68% of the US winter wheat crop was harvested as of 23 July, compared to 56% from a week ago and 76% at the same stage last season. For corn, 57% of the crop was rated good-to-excellent, unchanged from last week, but down from 61% last year. The USDA rated 54% of the soybean crop as good-to-excellent, marginally lower than 55% from a week ago and the 59% reported a year ago.

The European Commission's monthly MARS report for July shows a drop in wheat yield projections close to the five-year average at 5.59t/ha for 2023, compared to 5.7t/ha projected in June due to unfavourable weather conditions. Warm and dry conditions across the western, central, and northern regions continued to lower the soil moisture and undermine crop yields. Meanwhile, excessive rainfall in some regions also reduced the quality of the crop. For corn, the European Commission estimates yields to drop to 7.53t/ha from a previous projection of 7.61t/ha. However, this is still above the five-year average of 7.48t/ha.

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