The Commodities Feed: The complex buckles

There was a broad risk-off move across the commodities complex yesterday, with energy, metals and agri all coming under pressure. Volatility in the energy market continues and is unlikely to subside anytime soon given the level of uncertainty in both the oil and gas markets

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Energy- Brent trades back below $100/bbl

Brent sold off sharply yesterday and settled 5.5% lower on the day. We are seeing a bit of a relief rally in early morning trading in Asia today, which shouldn't be too much of a surprise after the scale of yesterday's move. The Nov'22 contract is now trading below the 50-day moving average, though it seems like the 200-day moving average is providing some relatively good support. It is difficult to pin the sell-off to a specific catalyst, given the broad weakness seen across the complex. However, there was a report/rumour that the US and Iran have reached an agreement on the nuclear deal, which would be announced in the next 2 to 3 weeks. The report cites a former IAEA official. However, with no corroboration elsewhere, we are currently viewing this report as no more than a rumour.

Numbers overnight from the API show that US crude oil inventories rose by 593Mbbls, while on the refined products side, gasoline and distillate stocks are reported to have declined by 3.41MMbbls and 1.73MMbbls respectively. The large product draws and limited build in crude stocks mean that the report overall was fairly supportive. The more widely followed EIA numbers will be released later today.

European natural gas prices continued their sell-off yesterday. TTF fell by a further 9.3%, likely due to uncertainty over what intervention the European Commission takes in the power market. While there is little detail on the form of intervention, in the short term at least, we are likely to see some gas/power price cap when it comes to power generation.

Today will also see Russian gas flows along Nord Stream come to a halt, with 3 days of maintenance at the compressor station set to start. The market will nervously await the scheduled resumption of flows later in the week. As for EU inventories, storage is now 80% full, which is well ahead of the European Commission's target date of 1 November. Given the uncertainty over Russian flows, we expect member states will continue to build inventories.

Metals- China supply fears ease

Copper, along with other base metals, fell sharply yesterday as Covid restrictions in China continued to haunt metals demand. Chinese supply fears also eased slightly with smelters restarting operations. A decline in European energy prices would have also helped ease fears of further aggressive output cuts by metal smelters in the region. Though Alcoa announced yesterday that it would reduce production at its Lista aluminium smelter in Norway by one-third due to high energy prices. The cuts equate to around 31ktpa of capacity.

Reports indicate that Tongling Nonferrous Metals Group Co. has resumed operations after the local government resumed electricity supply to the copper producer. Operations at plants including Jinlong and Aolu (with a combined capacity of ~650ktpa) were impacted due to electricity supply cuts amid the power crunch earlier this month.

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