The Commodities Feed: The Fed hikes

The US Fed hiked rates by 75bp as expected, but the press conference suggested that rates will go higher than previously expected. This is likely to provide headwinds to commodity markets in the near term despite constructive fundamentals

Federal Reserve

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Energy - Bullish US inventory report

The oil market managed to settle higher yesterday despite a 75bp hike from the US Fed and comments suggesting that rates will peak at a higher level than previously expected. That said, they also indicated that the pace of hiking could slow as soon as the next meeting in December. Weaker price action in early morning trading in Asia looks as if the market could be digesting the outcome of the FOMC meeting, with WTI down more than 1% at the time of writing.

The EIA's weekly report was fairly bullish and showed that US commercial crude oil inventories declined by 3.12MMbbls over the last week. Although if we look at total US crude oil inventories, which take into account stocks from the SPR, inventories fell by 5.04MMbbls. The drawdown in the SPR last week was the smallest since February. It would appear that we are starting to see larger draws in commercial crude oil inventories as the amount of crude released from the SPR is reduced. The refined product numbers were also bullish. US gasoline inventories declined by 1.26MMbbls, leaving total US gasoline inventories at 206.63MMbbls - the lowest level seen since

2014. Meanwhile, distillate fuel oil stocks grew by just 427Mbbls, and while we saw a more meaningful build on the US East Coast, inventories in the region are still at their lowest levels on record for this time of year.

European day-ahead gas prices continue to trade in a volatile manner. TTF day ahead rallied more than 96% yesterday to EUR45/MWh. Although current prices are still well below the more than EUR200/MWh seen at the end of September. There have been few fresh fundamental developments in the European market. Storage continues to fill up given the milder weather. The latest data from Gas Infrastructure Europe shows that storage is 95% full now, compared to a 5-year average of 89%. Meanwhile, German storage is more than 99% full. The rally in prices yesterday could have been driven by the fact that it is looking increasingly likely that the Freeport LNG export facility in the US will see a further delay in its restart after a fire earlier in the summer. The plant was set to partially restart this month but is yet to submit its restart plan to regulators. Further delays in the restart mean a tighter-than-expected global LNG market through the northern hemisphere winter.

Metals – China steel demand to remain suppressed

The China Iron Ore and Steel Association (CISA) expects steel demand in China to remain suppressed due to extended stringent Covid-19 control measures and worries over a global economic slowdown. China's steel consumption fell 4.2% YoY to 741mt in the first nine months of the year as overall downstream demand remained weak. The recent data from Mysteel shows that roughly 150kt of daily production capacity was impacted in October as 44 blast furnaces were shut down at mills in China's north and north-west. At the end of the month, 28 of those had not resumed production affecting 100kt of production capacity.

Agriculture – Russia resumes Ukraine grain export deal

CBOT wheat futures fell more than 6% yesterday after Russia agreed to resume the Black Sea grain export deal. This is after Russia said it had received "written guarantees" from Ukraine that the safe-passage corridor wouldn't be used for military purposes. Ukraine is optimistic that the deal will be extended beyond its mid-November deadline due to strong global demand. The deal will automatically be extended for 120 days if the involved parties have no objections.

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