The Commodities Feed: US natural gas climbs

US natural gas prices continue to strengthen, with lower-than-expected storage builds and the full return of Freeport LNG

Energy – Chinese apparent oil demand falls

US stock draws and growing expectations that the US Fed may start cutting rates soon continue to support the oil market. However, while macro developments have been important for price direction and sentiment recently, OPEC+ output policy will become increasingly important as we move closer towards the OPEC+ meeting at the start of next month. We continue to believe that only a partial rollover is needed to ensure the market is balanced over the second half of 2024. However, OPEC+ also needs to somehow manage market expectations. If consensus starts to move towards a full rollover of supply cuts, it becomes more difficult for OPEC+ to do anything other than a full rollover.

The latest industrial output data from China shows that refiners reduced activity in April. Crude processed in the month fell by close to 3.5% YoY, to almost 14.4m b/d. Apparent domestic demand was also weaker, falling by close to 3% YoY to a little more than 14.6m b/d. In addition, stronger YoY crude oil imports coupled with lower refinery activity meant that crude oil stocks grew at a pace of a little over 800k b/d in April.

The latest data from Insights Global shows that refined product inventories in the ARA region fell by 112k tonnes over the last week, to 6.15m tonnes. The decline was driven by light ends, with gasoline and naphtha stocks falling by 73k tonnes and 31k tonnes respectively. Gasoil inventories increased by 21k tonnes to 2.34m tonnes, with stocks still trending above the 5-year average. The more comfortable middle distillate market continues to keep ICE gasoil under pressure. The forward curve is in contango until October, while the prompt crack remains under pressure, trading around $18/bbl, and down from close to $35/bbl in February. For now though, the jet fuel market appears to be providing a floor to the gasoil market with the jet regrade at its highest levels since February. This should push refiners to adjust yields to deal with the current oversupply in the diesel market.

In Singapore, data from Enterprise Singapore shows that refined product stocks fell by 2.48m barrels over the past week to 44.49m barrels. This decline was driven by middle distillates and fuel where stocks fell by 994k barrels and 1.64m barrels respectively.

US natural gas prices continue to recover, with front-month Henry Hub futures breaking above $2.50/MMBtu and trading to its highest level since January. EIA storage data yesterday showed that natural gas inventories increased by 70bcf/d over the past week, less than the 77bcd/f expected, and below the 5-year average of 90bcf/d. While total US storage is still comfortable at almost 31% more than the 5-year average, the gap is narrowing, falling from a little more than 33% last week. The return of all three trains at the Freeport LNG export facility will have provided further support to the US natural gas market.

Metals – LME warehouse queue concerns

After the delivery of more than 600k tonnes of aluminium into LME warehouses in Port Klang, Malaysia late last week and early this week, there have now been requests over the last two days to withdraw a little more than 284k tonnes, mostly from Port Klang. Cancelled warrants for aluminium increased by 183,975 tonnes yesterday, after a 100,325 tonnes increase in the previous day. The large amount of cancellations for aluminium in Port Klang raises concerns over warehouse queues once again for the LME, with almost 353k tonnes of aluminium waiting to be withdrawn.

Steel inventories at major Chinese steel mills rose (after declining for four consecutive weeks) to 16.3mt in early May, up 2.51% compared to late April, according to data from the China Iron and Steel Association (CISA). Steel inventories are 7.6% lower than in the same period last year. Crude steel production at major mills declined marginally from late April - to 2.2mt/d in early May, with reports that some mills have curtailed production.

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