The Commodities Feed: US natural gas prices spike higher

Spot US natural gas prices spiked higher on Friday on the back of cold weather across large parts of the US. Meanwhile, tensions in the Middle East remain elevated following US and UK airstrikes in Yemen last week

Source: Shutterstock

Energy- US natural gas prices spike higher

The oil market saw a fairly choppy trading session on Friday with ICE Brent trading within a US$2.79/bbl range. Brent briefly broke above US$80/bbl amid ongoing tension in the Middle East, specifically the Red Sea, following US and UK airstrikes against the Houthis in Yemen. However, the market was unable to hold on to these earlier gains. While geopolitical risks are certainly building, we are still not seeing a reduction in oil supply as a result of developments in the region. But, the more escalation we see in the region, the more the market will have to start pricing in a larger risk of supply disruptions.

Speculators boosted their positions in ICE Brent over the last reporting week, increasing their net long by 38,905 lots, leaving them with a net long of 208,748 lots as of last Tuesday - the largest position they have held since October. The move was predominantly driven by fresh longs with the gross long increasing by 29,942 lots over the period. Speculators also increased their net long in NYMEX WTI, with the net long increasing by 21,799 lots to 111,129 lots as of last Tuesday. For WTI, the move was largely driven by short covering, with the gross short falling by 20,138 lots.

European gas storage has now broken below 80% with colder weather over the last week seeing the largest daily withdrawals from storage so far this winter. However, storage remains above the 5-year average of 68% for this time of year. For now, we are still assuming that European storage will finish this heating season at around 52% full, which suggests limited upside for European gas prices.

The US natural gas market has seen increased volatility in recent days and Friday saw a significant jump in spot prices. While front-month Henry Hub futures settled almost 7% higher on Friday, spot prices jumped more than 300% to over US$13/MMBtu due to freezing weather conditions across large parts of North America. Colder weather will lead to stronger heating demand. But there are also supply risks. Freezing conditions expected in Texas could lead to disruption to natural gas infrastructure. Front-month futures have given back a lot of Friday's gains in early morning trading today.

There is plenty on the energy calendar this week. On Wednesday, China will release its industrial production numbers for December, which will include output data for crude oil and refinery activity. OPEC will also release its latest monthly market report on the same day, which will include its 2024 outlook for the oil market. On Thursday, the International Energy Agency will release its latest oil market report, while China will release its second batch of trade data, which will include more detailed energy trade numbers. Also, given today is a public holiday in the US, the usual weekly inventory numbers from the API and EIA will be delayed by a day.

Agriculture – larger US corn and soybean supplies

The USDA revised up its 2023/24 US corn production estimates by 108m bushels to a record 15.34bn bushels on account of rising yields. As a result, ending stocks are now projected to hit 2.2bn bushels, up 31m bushels from previous estimates. For the global balance, 2023/24 ending stock projections were revised up from 315.2mt to 325.2mt primarily due to larger supplies. Global corn production was revised up by 13.7mt to 1,235.7mt, with supply increases from the US (+2.7mt), and China (+11.8mt).

For soybeans, the USDA raised its 2023/24 US production estimate from 4,129m bushels to 4,165m bushels, on the back of stronger yields. Ending stock estimates were revised up by 35m bushels to 280m bushels as a result. Given marginal adjustments in global production and usage compared to last month, ending stock projections for 2023/24 increased by just 0.4mt to 114.6mt.

The USDA decreased its US wheat ending stocks estimate for 2023/24 from 659m bushels to 648m bushels following a reduction in beginning stocks. For the global wheat market, the USDA increased 2023/24 ending stock estimates from 258.2mt to 260mt, largely on account of higher stocks at the start of the year. Global wheat production estimates were increased by around 1.9mt to 784.9mt.

In addition to the WASDE monthly update, the USDA also released its quarterly grains stocks report which showed that US corn and soybean stocks stood above market expectations as of 1 December 2023. US corn stocks totalled 12.2bn bushels, up 12.5% YoY and above market expectations of 12bn bushels. Meanwhile, US soybean stocks came in at 2.99bn bushels, down

0.7% YoY, but higher than the average market expectation of 2.97bn bushels. Finally, for US wheat, stocks were up 7.5% YoY to total 1.4bn bushels, largely in line with market expectations of 1.39bn bushels.

Authors

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com