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COMMODITIES DAILY

The Commodities Feed: US oil stocks rise

Oil prices came under renewed pressure following a surprise build in US crude oil inventories. However, geopolitical risks continue to hang over the market

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Energy - Surprise US inventory build

Oil prices sold off yesterday following a surprise build in US crude oil inventories. ICE Brent fell 1.15% yesterday, settling below US$80/bbl once again. The EIA inventory report showed that US commercial crude oil inventories increased by 1.36m barrels over the last week, very different to the 5.2m barrel draw the API reported the previous day and the first increase since late June. While crude oil exports increased by 118k b/d WoW to 3.76m b/d, they remain below the 4-week average of 4.18m b/d. Refined product stocks still edged lower despite refiners increasing utilisation rates by 1pp over the week. Gasoline and distillate stocks fell by 2.89m barrels and 1.67m barrels respectively. Implied demand for gasoline and distillates was stronger over the week, increasing by 78k b/d and 80k b/d respectively. Despite the gasoline stock draw and stronger implied demand, the prompt gasoline crack continued to edge lower.

However, geopolitical risk continues to hang over the oil market. It is still unclear how and if Iran will retaliate against Israel following the assassination of the political leader of Hamas on

Iranian soil. This uncertainty has led to increased options trading activity with market participants wanting to protect themselves from significant upside. This is most evident in the US$85/bbl strike for the October and November Brent contracts.

Russia has extended its gasoline export ban through until the end of this year. The ban was originally set to expire at the end of August, but the government wants to ensure adequate supply in the domestic market. While a ban has been in place for several months, the government temporarily allowed exports in July. A ban on diesel exports would be a bigger concern for global markets, though the deputy prime minister has said there are no plans to extend the ban to diesel.

European natural gas prices eased somewhat yesterday. TTF settled 1.3% lower on the day, taking prompt prices back below EUR39/MWh. However, given the risks around Russian pipeline flows via Ukraine, prices are likely to remain volatile and sensitive to developments in the Kursk region of Russia. For now, pipeline flows remain largely unaffected. Given the supply risks, speculators have continued to boost their positioning in TTF. Investment funds increased their net long by a little more than 42TWh to 234TWh - the highest level since July 2021.

On the calendar for today, China will release industrial output data for July, which will include crude oil production and refining activity. The EIA will also release its weekly US natural gas storage report and expectations are that inventories increased by just 1Bcf over the week, compared to a 5-year average for a 43Bcf increase.

Metals – Iron ore slumps to lowest since May 2023

Iron ore slumped to the lowest level since May 2023, holding just above $95/t, after China's Baowu, the world's largest steel company, warned of an industry-wide crisis in the country. Iron ore prices are down more than 28% so far this year amid continued concerns over demand in China, the largest consumer. The prolonged crisis in the property market, a key user, doesn't show signs of bottoming out just yet and there is little hope for near-term recovery. This will continue to drag on demand for iron ore. Meanwhile, the global seaborne market remains in a surplus amid robust flows from major producers, Australia and Brazil.

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