The Commodities Feed: WTI oil falls below $80 a barrel

Broader market concerns have weighed on the complex, whilst a stronger dollar has only provided further headwinds. However, for oil at least, the fundamentals remain constructive

Energy: Large US crude draws

The oil market continues to come under pressure, with Brent falling 1.7% yesterday, following a raft of weaker-than-expected Chinese macro data this week. The latest Fed minutes will not be helping sentiment, with them suggesting that the US Fed may have some more work to do when it comes to monetary tightening. The strength in the USD over much of the week will also be providing further headwinds to the market. As for WTI, it settled below US$80/bbl for the first time since early August. However, whilst there are broader market concerns, oil fundamentals remain largely constructive as continued OPEC+ supply cuts should ensure that we see sizeable inventory draws for the remainder of the year.

The EIA's weekly inventory report was largely constructive, showing that US commercial crude oil inventories fell by 5.96MMbbls over the last week. This leaves crude oil inventories at a little under 440MMbbls, which is the lowest level since the start of the year. Crude oil inventories at Cushing fell by 837Mbbls, leaving them at 33.8MMbbls- levels last seen back in April. The large draw in commercial inventories was largely driven by a rebound in crude oil exports, increasing

2.24MMbbls/d WoW. Refiners also increased their run rates by 0.9pp over the week to 94.7%. Although despite stronger refinery activity, gasoline inventories still fell by 262Mbbls, whilst distillate stocks grew by 296Mbbls.

Labour talks in Australia look as though they will roll into next week in an attempt to avoid strike action at several LNG facilities after there was no breakthrough in negotiations earlier this week. Reports suggest that talks will continue next Wednesday. The fact that talks are expected to continue next week has provided some comfort to the market, with TTF settling 2.65% lower yesterday. For Europe, given the comfortable storage situation (90% full), we would need to see a large amount of the roughly 41mtpa LNG capacity at risk, disrupted for a prolonged period, in order to be overly bullish for prices.

Metals: LME zinc on-warrant stocks rise

The latest LME data shows that total on-warrant stocks for zinc continued to see large inflows, rising by 37,425 tonnes (biggest daily addition since January 2021) yesterday to 130,950 tonnes. The majority of these inflows occurred in Singapore warehouses. Total readily available stocks for zinc have witnessed net inflows of 54,550 tonnes in the last two days alone, whilst net inflows for the month total 66,425 tonnes. The stock build has seen the cash/3m spread coming under some pressure, falling from a backwardation of US$36.50/t last week to a contango of US$4.25/t yesterday.

Iron ore remains under pressure in ferrous metals as steel mills in China extend production cuts, while the struggling Chinese property market has further dampened the raw material demand outlook. Mysteel reports that steel plants in Jiangsu province in China have started to reduce steel production by between 20%-30% for the latter half of the year. Steel mills in other provinces, including Shandong, have also started trimming their output levels as a result of production controls. Falling home prices in July further highlight the deepening property crisis in China.

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