# The Commodities Feed: Complex unable to escape risk-off move

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## Energy

It was a sea of red across the commodities complex yesterday. The complex was swept up in the risk-off move seen across assets, driven by equities. Whilst lockdowns in Shanghai are slowly unwinding, rising Covid cases in parts of Beijing and the port city of Tianjin have led to some districts going into lockdown, which has not helped sentiment. Further lockdowns in Tianjin is a key risk, given that its port is the largest in Northern China. It is pretty clear that with China's Covid-zero policy, demand risks will continue to linger. ICE Brent settled more than 2.5% lower yesterday, although it has managed to recover somewhat in early morning trading today.

The EIA weekly inventory report showed that US commercial crude oil inventories declined by 3.39MMbbls over the week, but when SPR releases are taken into consideration then total US crude oil inventories declined by 8.4MMbbls. US commercial crude inventories continue to hover below the low end of the 5-year range, with stocks standing at a little under 421MMbbls, compared to a 5-year average of 488MMbbls. Clearly, without the SPR releases commercial crude inventories would be significantly tighter at the moment. The EIA release will also do little to ease fears over a tightening US gasoline market. US gasoline inventories declined by 4.78MMbbls, leaving them at around 220MMbbls, the lowest levels seen at this stage of the year since 2014. Gasoline stocks on the US East Coast are looking even tighter, with these at their lowest levels since 2011 for this time of the year. While refiners have some room to increase runs (utilization rates increased by 1.8% percentage points to 91.8% over the week), gasoline demand should increase as we move into driving season, which suggests that we will see further tightness in the US gasoline market. In this case, we are likely to see further pressure on the US administration to try rein in gasoline prices.

Chinese trade data shows that refined product exports remain under pressure. Diesel exports over April fell 80.6% YoY to 530kt. This was also 20.9% lower than levels exported over March. Whilst domestic fuel demand in China has been weaker due to Covid related restrictions (which would have increased domestic inventory levels), exports have been held back by reduced export quotas for refined products. Gasoline exports also declined in April, falling 33.4% YoY to 980kt. A reduction in Chinese exports has been a key driver in the tightening that we have seen in refined product markets across the globe. And this reduction in Chinese exports is more likely structural (with China wanting to drive consolidation within the domestic refining industry and cut emissions), which suggests that the tightness in refined markets is unlikely to disappear anytime soon.

The UK gas market was also unable to escape the broader pressure across markets. Although, weakness in NBP is likely due to a well supplied domestic gas market, particularly when compared to continental Europe. Prompt NBP is trading at more than a US$6.5/MMBtu discount to TTF. UK gas storage is almost 92% full, well above the 5-year average of around 25%. Stronger storage numbers are due to robust LNG imports that we have seen this year. Although, to be fair the UK has very limited gas storage, working storage only meets around 1.5% of annual consumption in the UK, whilst in the EU working storage covers 26.5% of annual consumption. Strong LNG imports and limited storage capacity in the UK has meant that we have seen strong gas flows to continental Europe via the interconnector and BBL.

The EU carbon market came under significant pressure yesterday, with the Dec-22 contract falling by more than 7.7% to settle at EUR84.64/t. Whilst the European Parliament's environmental committee vote on Tuesday was supportive, Commission proposals to sell EUR20b worth of allowances from the Market Stability Reserve (MSR) weighed heavily on the market. These funds would be used to help fund the EU's REPowerEU plan. Although, the move is a bit strange when you consider that the EU is moving closer towards agreeing on increasing the rate at which allowances are reduced every year, yet the Commission is proposing a large release from the MSR.

## Metals

Metal markets were unable to escape the broader pressure we saw across markets yesterday. The risk-off move and stronger USD weighed heavily on the metals complex. At a conference yesterday, China Premier, Li Keqiang called on government agencies to act with a greater sense of urgency and implement policies faster. However, markets lack confidence despite vows for supportive measures and plans for Shanghai to reopen in June. A flaring up in Covid cases in other regions of China will not be helping sentiment.

Despite the macro picture remaining dire for metals, some micro developments continue to point to a tight market, especially in the ex-China market. LME aluminium on-warrant stocks set a fresh new low at 206kt as of yesterday, with another 16kt of cancelled warrants signaling the potential for further outflows. However, physical premia have begun to show signs of peaking, and the US mid-west premium has remained below USc40/lb. This may be due to high inflation and uncertainty over the economic outlook, leaving some consumers on the sidelines.

China Customs reported 170kt alumina exports in April, the highest since 2018 after the Alunorte accident. The jump in alumina exports comes amid a generally favourable export arb for Chinese onshore players, and a large amount of these exports are likely destined for Russia, as smelters there have been struggling with raw material supply. Detailed data will be available later this month, which should be able to confirm this. In addition, Chinese exports for unwrought copper and copper products rose 53% YoY to 116.5kt (highest since May 2016) in April. Cumulatively, exports rose 25% YoY to 362kt in the first four months of the year.

## Agriculture

A sell-off in the broader financial market saw the CBOT grains complex also trading softer yesterday with CBOT wheat falling more than 4% yesterday. CBOT corn and soybean also declined on the back of weaker sentiment. Trade data from China's Customs showed that corn imports increased 19.4% YoY to 2.2mt in April, while YTD imports were up 8.5% YoY to total 9.3mt. China's corn imports are better than the market was expecting, with disruptions in Ukraine appearing not to have an impact on Chinese corn inflows so far. However, wheat imports fell 22.4% YoY to 0.7mt in April, while YTD imports were down 1.8% YoY to total 3.75mt.

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