

The Commodities Feed: EU energy ministers set to meet

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Energy

ICE Brent managed to settle higher last week, despite a weaker performance towards the end of the week. The strength in the prompt ICE time spread shows that the market is still tight and is expected to remain so for the foreseeable future, largely driven by expectations that Russian oil supply will edge lower in the months ahead as widely-expected plans for a price cap on Russian oil may have the opposite effect on oil prices than hoped for. The governor of Russia's central bank has said that Russia would not supply crude oil to any country which caps prices. Although the deputy prime minister had previously said that Russia would not supply oil if the cap was set below production costs.

Libyan oil output is continuing to recover following months of disruptions due to local unrest. The oil ministry has said that production is at least 800Mbbbls/d at the moment and expectations are that output will reach 1.2MMbbbls/d in early August. However, it is likely that domestic output will remain fairly volatile, something that the market has become accustomed to over recent years.

Following the strength seen in the oil market over the early part of last week, it is no surprise that

we saw speculators increasing their net long in ICE Brent over the last reporting period. The managed money net long grew by 15,164 lots over the last reporting week, to leave them with a net long of 154,792 lots. The move was fully driven by fresh buying, with the gross long increasing by 16,909 lots.

As if there were not enough disruptions to energy markets, Europe is now having to worry about low water levels along the River Rhine, which is an important trade route for the continent. The low water levels restrict barge movement, and we are seeing this have an impact already. Switzerland will be releasing around 1.5MMbbls of fuel from its strategic reserves until September due to low water levels disrupting flows.

Turning to gas, we should shortly get more clarity on the return of a turbine for Nord Stream to Gazprom. There are reports that Siemens transferred the necessary paperwork to Gazprom over the weekend, which could see the turbine returned over the next few days. Russia has claimed in recent days that a delay in the return and maintenance of turbines could see gas flows along Nord Stream fall further. However, EU gas storage levels continue to increase, with the latest data from Gas Infrastructure Europe showing that storage is almost 66% full, compared to a 5-year average of 67% and 54% at this stage last year. EU energy ministers are planning to hold an emergency meeting tomorrow in order to discuss what steps member states can take to prepare for a potential stoppage in gas flows ahead of next winter.

Metals

LME copper had a strong finish last week on renewed mine supply concerns, along with a slight easing in the USD. The risk of protests at MMG's Las Bambas copper mine in Peru increased once again, after a 30-day truce aimed to resolve conflicts ended with no agreement between local communities and the company. The government and management tried to extend the truce for another month. However, local groups declined to sign any agreement. In addition, Freeport-McMoRan Inc, said that the current price of copper is not enough to support new mines and could tighten the supply and demand balance in the future.

As for aluminium, Alcoa Corp. cautioned that surging production costs globally have impacted around 10%-20% of aluminium smelting capacity profit margins. The group also estimated that current spot prices have turned almost half of China's smelting capacity unprofitable.

The latest CFTC data shows that speculators reduced their bearish bets in COMEX copper by 3,865 lots over the last reporting week, to leave them with a net short of 14,448 lots as of last Tuesday. As for gold, speculators increased their bearish bets in COMEX by 12,469 lots to leave them with a net short of 9,721 lots as of last Tuesday. This is the first time since April 2019 that speculators have held a net short in gold. Central bank tightening and broader USD strength have weighed on gold.

Agriculture

Ukraine and Russia signed a grain export deal on Friday in Turkey, which was promising for the resumption of grain exports from Ukraine. While the details of the agreement are not fully known, grain shipments could resume from the Ukrainian port of Odesa and other ports over the next few weeks, whilst Russia will also be increasing shipments through the Black Sea. The ships carrying grains will be guided/inspected by Russia, Ukraine, and Turkey to uphold the terms of the agreement. However, a Russian attack on Odesa over the weekend has already called the deal into

question. Whilst CBOT wheat and corn came under pressure following the signing of the deal, they have partially recovered this morning as a result of the uncertainty following the attack.

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