

The Commodities Feed: European gas continues to rally

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Gas storage tank

Energy

Oil prices continue to slowly grind higher, with ICE Brent breaking above US\$75/bbl a couple of times yesterday. The EIA's weekly report was constructive, showing inventory draws across the board. US crude oil inventories declined by 4.1MMbbls over the week, which was not too dissimilar to the 4.73MMbbls decline the API reported the previous day. In addition, crude inventories in Cushing fell by 1.27MMbbls leaving inventories at the WTI delivery hub at their lowest levels since January last year. This helped the prompt WTI spread to strengthen. It is now trading in a backwardation of more than US\$0.60/bbl. The drawdown in crude oil inventories was predominantly driven by lower imports over the week; crude flows fell by 590Mbbbls/d over the week. This was largely a result of lower flows from Iraq. These fell by 335Mbbbls/d over the week. In addition to lower imports, domestic crude oil production is estimated to have fallen by around 200Mbbbls/d to 11.2MMbbls/d.

Refined products also saw large stock declines. Gasoline and distillate fuel oil inventories fell by 2.25MMbbls and 3.09MMbbls respectively. Gasoline imports into the East Coast fell by 419Mbbbls/d, whilst demand for products was stronger over the week. Implied gasoline demand edged up by 30Mbbbls/d, whilst implied distillate fuel oil demand grew by 431Mbbbls/d over the week.

Finally, European natural gas prices continue to strengthen. TTF prices rallied by more than 5% yesterday and edged closer towards EUR40/MWh. The supply picture in Europe is clearly tight, with inventories in the region at the lowest levels since 2015 at this stage of the year. This leaves storage only about 55% full. There is a real risk of Europe entering the winter season with low inventory levels suggesting that prices will remain well supported. While flows along the Nord Stream pipeline have resumed after maintenance, outages in Norway are weighing on Norwegian flows into Europe. In addition LNG flows have slowed, with high Asian LNG prices ensuring flows go to Asia rather than Europe. The spread between spot Asian LNG and TTF has, however, started to narrow this week, falling from more than US\$1.9/MMBtu at the end of last week to around US\$1.3/MMBtu currently.

Metals

The China Iron and Steel Association (CISA) expects China's steel market to experience a "periodical" supply shortage in the second half of this year as overall steel output will drop faster than the demand. The group expects crude steel demand to fall by less than 10-20mt in 2H21, whilst output may drop by 60mt with the nation's pledge to reduce domestic steel production from the record levels seen last year. However, reducing exports and inventories will help to offset the supply shortfall to some extent. Earlier this week, there were reports that China is considering imposing more tariffs on steel exports in order to cool down the domestic market.

Turning to copper, and MMG expects that road blockades by community protestors at their Las Bambas copper operations in Peru will not impact copper shipments, with enough stocks at port to meet planned shipping schedules.

Finally, Japan's shipments of aluminium rolled products rose 28% YoY in June, a fifth consecutive month of increases following the demand recovery from the auto and construction industries. According to the latest data from Japan Aluminium Association, shipments to domestic and overseas markets were 170kt last month, while cumulative shipments over the first six months of the year increased 11% YoY to 947kt.

Agriculture

CBOT wheat traded on a positive note yesterday and settled with gains of around 3% on weakening supply prospects in the US. An annual crop tour by the Wheat Quality Council in the US estimates that spring wheat yields in North Dakota could fall to around 29.5bu/acre this year based on the farms surveyed. The state reported a wheat yield of 49bu/acre for 2020. Acute adverse weather for spring wheat this year has weighed heavily on the current crop. Earlier in the week, the USDA rated only around 9% of the current US spring wheat crop in good-to-excellent condition, down from 11% a week ago and significantly below the 70% rating a year ago.

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