

The Commodities Feed: European gas supply concerns resurface

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Gas storage tank

Energy

The oil market was under pressure for much of yesterday. ICE Brent settled 2.2% lower on the day, taking it below the US\$120/bbl level. The US Fed's decision to hike rates by 75bps will not have helped, but it is unlikely to have been the main catalyst, as the market had already been pricing in more aggressive action from the Fed following the US CPI data last week.

US inventory data from the EIA may have added to the pressure. US commercial crude oil inventories increased by 1.96MMbbls over the week. Although, when releases from the strategic petroleum reserve are taken into consideration, total US crude oil inventories declined by 5.76MMbbls. As for refined products, gasoline inventories fell by 710Mbbls over the week, whilst distillate fuel oil stocks grew by 725Mbbls. The more bearish numbers were related to demand. Total implied demand fell by 524Mbbls/d over the week, whilst implied gasoline demand declined by 106Mbbls/d.

The IEA released its monthly oil market report yesterday, which included forecasts for 2023. The agency expects that global oil demand will grow by 2.2MMbbls/d in 2023 to reach 101.6MMbbls/d, exceeding pre-Covid levels. This growth is also stronger than the 1.8MMbbls/d demand growth expected this year. The accelerated pace of growth next year reflects expectations of a robust

recovery in demand from China. As for supply, non-OPEC+ supply is expected to grow in 2022 and 2023 by 1.9MMbbls/d and 1.8MMbbls/d respectively. OPEC+ output is expected to fall next year due to sanctions against Russia. This means that potentially the global market will remain in deficit over 2023, which will tighten global inventories further. In April, OECD industry stocks are estimated to have increased by 42.5MMbbls. However, this increase would have been helped by government releases from strategic reserves.

The European gas market has seen a significant amount of strength over the week. TTF has rallied by around 46% from Friday's settlement to more than EUR120/MWh as concern over supply starts to resurface. The Nord Stream pipeline has seen flows fall significantly in recent days and Gazprom has warned that flows along the pipeline will fall further, which would see supply through the pipeline falling by 60% to just 67mcm/day. The fall is apparently due to another outage of a turbine, whilst sanctions have also made it difficult to return turbines which have been undergoing maintenance in Canada. If prolonged, this outage will have an impact on the ability of Europe to continue building inventory at the pace we have seen recently, which could leave the market more vulnerable going into the next heating season. Nord Stream is also expected to undergo its usual annual maintenance from 11-21 July, which will see flows along the pipeline come to a full stop during that period. In addition to concerns over Nord Stream flows, the LNG market is also set to be tighter in the coming months. Following a recent fire at Freeport LNG in the US, the plant is set to be offline for 90 days, compared to initial expectations of just 3 weeks. Freeport LNG makes up roughly around 17% of total US LNG exports, and so the loss of this supply will be felt in an already tight global LNG market.

Metals

A modest recovery in China's industrial production numbers for May along with weakness in the dollar index helped industrial metals edge higher, with aluminium and nickel leading the gains yesterday.

The latest data from the National Bureau of Statistics (NBS) shows that primary aluminium production in China rose for a second consecutive month, reaching an all-time high last month. Aluminium production jumped 3.1% YoY and 1.8% MoM to 3.4mt in May, as power constraints eased and aluminium smelters restarted operations along with the addition of new production capacity. Chinese steel production rose 4% MoM to 96.6mt in May. However, it was still down 3.5% YoY. Cumulative steel output over the first 5 months of the year was 435mt, down 8.7% YoY.

As for copper, the Shanghai Metals Market (SMM) estimates that a recovery in the run rates of Chinese copper fabricators following lockdowns is slowing in the current month. SMM estimates that run rates may reach 68.2% in June, a marginal rise of 0.32% from May, and still down around 5% from levels seen last year.

Agriculture

The weakness in sugar continued yesterday with the No 11 sugar prompt-month contract falling by more than 1.2% to US\$18.57/lb, on the back of a healthy production outlook from India for next season. The Indian Sugar Mills Association (ISMA) estimates total sugar production (including diverted for ethanol production) to increase from around 39.4mt to 40mt. The association estimates sugar production to total around 35.5mt in 2022/23, whilst sugar diversion for ethanol production could increase to around 4.5mt compared to 3.4mt this year as the government increases ethanol blending targets. ISMA estimates sugar cane acreage in major producing regions

to increase by around 2-3% next year, whilst yields are also expected to be healthy. ISMA requested the government to allow 8mt of exports for next season; which would be marginally smaller than the current season's exports (capped at around 10mt,) but will still be significantly higher than the 5-yr average.

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