

# The Commodities Feed: European gas uncertainty

Your daily roundup of commodity news and ING views



Gas storage tank

## Energy

EIA numbers yesterday offered some immediate relief for oil bulls, with a more constructive inventory report than the API suggested the previous day. The EIA reported that US commercial crude oil inventories fell by 1.09MMbbls over the last week, which compares to market expectations for a 1.75MMbbls drawdown, and is very different from the 4.7MMbbls build reported by the API the previous day. The draw was largely driven by trade, with crude oil imports falling by 308Mbbls/d over the week, while crude oil exports jumped by 233Mbbls/d to average 3.63MMbbls/d over the week- the third-highest weekly number on record. Meanwhile, despite the weakness that we have seen in refinery margins, run rates over the week were unchanged at 90.6%. Although persistent weakness in margins may weigh on runs moving forward, looking regionally, utilisation rates at Gulf Coast refiners fell by 1.5 percentage points over the week. Product inventories were also less bearish than what API numbers suggested, with the EIA reporting that gasoline and distillate fuel oil inventories increased by 2.53MMbbls and 1.51MMbbls respectively.

Moving on from oil, and European natural gas prices surged higher yesterday, as worries continue to grow over the Russia/Ukraine transit deal. This comes after the CEO of Naftogaz said that the chance of concluding a gas transit deal before the year end was “close to zero”, and that if the deal is not signed now, negotiations would likely only resume in April. Ukraine is a vital transit

route for Russian gas coming into the EU, however, with the current 10-year deal set to expire at the end of this year, there is plenty of uncertainty over European gas supply in 2020. Ukraine would like to have another 10-year deal and remain a key supply route for Russian gas into the EU. However, Russia continues to diversify its pipeline routes, such as with Nord Stream 2, and so is more reluctant to offer another long term agreement. The issue though is that Nord Stream 2 is expected to only come online in mid-2020, which means in the absence of a deal, the European gas market will tighten.

## Metals

It was a mixed performance for metals. USD strength weighed somewhat on the complex yesterday, whilst copper came under further pressure following record monthly refined production numbers out of China. Along with an unfavourable import arbitrage, Chinese copper premiums have softened, falling to US\$61/t, down 16% since the start of the month, and now at levels last seen in early August- this does reflect a reduced import appetite. However LME copper stocks continue to fall, yet the overall term structure remains largely unchanged in deep contango.

LME aluminium has continued to trade largely sideways over the last couple of days. Near term, prices have remained fairly resilient despite surging LME stocks. Meanwhile, the ShFE market has rallied this week, on the back of declining exchange stocks. Looking ahead, heavy snow in northern areas has led to some logistical issues, which could see a further fall in ShFE stock levels.

## Agriculture

Latest production numbers from the Indian Sugar Mills Association shows that 2019/20 Indian sugar output through until 15 December totalled 4.58mt, down 35% YoY, with declines driven by Maharashtra and Karnataka. While still significantly lower YoY, the gap has narrowed as the season has progressed, with more mills coming online. Lower output from India is no surprise, with poor rainfall in Maharashtra having led to a lower planted area. Total output this season is expected to total around 26mt (taking into account ethanol diversion), down from 33mt last. This lower output has helped shift the global sugar market back to deficit as well as keeping the domestic Indian market largely in balance for 2019/20. However, given the surplus environment in previous years, India is still sitting on significant levels of stock, which continue to threaten the world market. The more strength we see in world market prices, the more likely we will see this stock make its way onto the world market in the form of exports.

## Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	66.17	0.11	22.99	Spot Gold (US\$/oz)	1,475.4	-0.06	15.04
NYMEX WTI (US\$/bbl)	60.93	-0.02	34.18	Spot Silver (US\$/oz)	17.0	0.04	9.82
ICE Gasoil (US\$/t)	610	-0.61	19.38	LME Copper (US\$/t)	6,175	-0.41	3.51
NYMEX HO (Usc/g)	202	-0.64	20.20	LME Aluminium (US\$/t)	1,777	0.74	-3.74
Eurobob (US\$/t)	575	-0.18	19.85	LME Zinc (US\$/t)	2,301	0.85	-6.73
NYMEX RBOB (Usc/g)	168	-0.11	27.20	LME Nickel (US\$/t)	13,870	-0.64	29.75
NYMEX NG (US\$/mmbtu)	2.29	-1.42	-22.24				
TTF Natural Gas (EUR/MWh)	14.95	3.39	-31.99	CBOT Corn (Usc/bu)	387	-0.77	3.20
				CBOT Wheat (Usc/bu)	548	-1.44	8.94
API2 Coal (US\$/t)	55	-0.27	-35.42	CBOT Soybeans (Usc/bu)	929	-0.03	5.21
Newcastle Coal (US\$/t)	67	-0.07	-33.78	ICE No.11 Sugar (Usc/lb)	13.43	1.21	11.64
SGX TSI Coking Coal (US\$/t)	140	1.22	-34.09	ICE Arabica (Usc/lb)	132	-0.38	29.31
SGX Iron Ore 62% (US\$/t)	91.50	-0.58	31.71	ICE London Cocoa (GBP/t)	1,781	-0.11	0.85

Source: Bloomberg, ING Research

## Author

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@ing.com](mailto:Warren.Patterson@ing.com)

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