

The Commodities Feed: European gas worries

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Energy

The oil market managed to eke out a small gain yesterday, amid thinner volumes due to the holiday in the US. There is little in the way of strong fundamental catalysts driving the market at the moment, instead, external influences are dictating price action.

Libyan oil output has seen a recovery over the last week. The Libyan energy minister has said that output has increased to 700-800Mbbls/d, up from less than 200Mbbls/d a week ago. This recovery has apparently been driven by Libya's largest oil field, Sharara. Libyan oil output has been under pressure this year due to protests forcing the closure of fields. Production is likely to remain volatile for the foreseeable future, with protests calling for the resignation of the prime minister unlikely to disappear.

Detailed trade data from China yesterday showed increased oil flows from Russia over May. China imported a record 2.06MMbbls/d of Russian oil over the month, which is about 18% of total Chinese oil imports. This is a significant increase when compared to May last year, when China imported 1.33MMbbls/d from Russia, making up 13% of total imports. Clearly, the large discounts available

on Russian crude oil have been too tempting for Chinese buyers. In theory, the more displaced Russian oil we see going to the likes of China and India, the easier it should be for the global market to deal with the EU's ban on Russian seaborne crude imports.

European gas is where there is most interest in energy markets at the moment. This follows Gazprom cutting gas flows along the Nord Stream pipeline last week, which has seen flows falling to almost 62mcm/day, compared to closer to 155mcm/day prior to the disruption. Gazprom has blamed the reduced flows partly on a delay in the delivery of a turbine, which was undergoing maintenance in Canada. Sanctions have made it difficult to return it. Disrupted flows will be a concern, given that Europe is in injection season, and will be trying to hit its target of having storage 80% full by 1 November. If these reduced flows persist, this target may be difficult to achieve. In addition, Nord Stream is set to undergo its scheduled annual maintenance between 11-21 July, which will see gas flows coming to a full stop over the period.

Metals

The latest numbers from the International Aluminium Association (IAI) show that global primary aluminium daily output stood at 187.3kt in May, compared to 186.7kt a month earlier. Total monthly output stood at 5.8mt last month, rising 3.6% MoM, but largely flat YoY. Cumulative output over the first five months of the year stood at 27.97mt, down less than 1% YoY. Production from China rose 3.9% MoM and 1.9% YoY to 3.42mt last month, which leaves YTD production at 16.3mt, down 0.5% YoY.

Agriculture

In its latest monthly crop monitoring report, the European Commission once again lowered its estimate for wheat yields to 5.56t/ha for the 2022/23 season. This compares to an earlier estimate of 5.69t/ha and the 5-year average of 5.62t/ha. Hotter and drier-than-usual weather in large parts of the continent was expected to hurt the wheat crop. We have seen yield forecasts revised lower for several months now. As recently as March, they were estimated at around 5.8t/ha. A broad sell-off in financial markets and some demand concerns have weighed on wheat prices over the past few weeks. However, lower supply from Europe would tighten the market over the coming months. The European Commission also reduced estimates for corn yields from 7.92t/ha to 7.87t/ha, although yields are still marginally higher than the 5-year average of 7.86t/ha.

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