The Commodities Feed: European natural gas spikes higher

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Gas storage tank

Energy

The oil market continues to lack direction. Participants continue to wait for signals from the US administration on whether they will release oil from the Strategic Petroleum Reserves (SPR). The hesitation appears to be because the market outlook is more comfortable in 2022, while an SPR release would also only offer short-term relief to the market. In addition, if the US were to make an SPR release, there is always the potential for OPEC+ to counter this by delaying their supply increases. Interestingly, there are media reports that during the Biden-Xi virtual summit yesterday, the US asked China to release some oil from its state reserves.

Yesterday also saw the IEA release its monthly market report. OECD inventories are estimated to have fallen by 51MMbbls over September, which leaves OECD industry stocks at 2,762MMbbls. This is around 250MMbbls below the 5-year average. There was little change in the agency's demand growth estimates for this year and 2022. Demand for this year is expected to grow by 5.5MMbbls/d, while 2022 demand growth is estimated at 3.4MMbbls/d. The IEA noted that oil supply is expected to grow by 1.5MMbbls/d over November and December and this is after growing by 1.4MMbbls/d in October. The growth in supply and the expectation that this will continue into 2022, suggests that prices should edge lower from current levels.

Numbers from the API overnight show that US crude oil inventories increased by 655Mbbls over the last week, compared to expectations for a build of around 1.2MMbbls. On the product side, gasoline inventories fell by 2.79MMbbls, while distillate fuel oil stocks increased by 107Mbbls.

The big move in energy markets yesterday was in natural gas. European prices rallied by almost 18%, which saw TTF settle above EUR94/MWh. The catalyst for the move was a suspension in the certification process of the new Nord Stream 2 pipeline. Regulators want a German subsidiary to be set up and for it to be the owner of the pipeline infrastructure which is in the country. This only adds further uncertainty over when the pipeline will start, but it is looking increasingly unlikely that Nord Stream 2 will help with the tightness in the European market over the winter. The strength in European gas prices has also pushed spot Asian LNG prices higher, given that the two regions are competing for LNG supply.

Agriculture

CBOT corn and soybeans were softer yesterday after US-China discussions concluded without any material outcome on the trade front. Phase 1 of the current trade deal involving the accelerated Chinese buying of US products, including agricultural commodities, expires at the end of 2021. The market was hoping for some clues on progress in US-China trade discussions in the short-to-medium term. For grain markets, uncertainty over Chinese demand could weigh on prices in the near term, even with domestic demand appearing to be improving. US soybean crushing recovered in October, while stronger ethanol prices have supported corn demand from the biofuel sector.

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