The Commodities Feed: Further US gasoline draws

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Energy

The oil market has traded firmer during the morning session in Asia. API numbers overnight were once again supportive for the market. Crude oil inventories are reported to have increased by 567Mbbls over the last week. However, there were continued product draws, with gasoline and distillate stocks falling by 4.22MMbbls and 949Mbbls respectively. The tightening in the US gasoline market will raise concerns over supply as we move into driving season. Tightness in the US is pulling in gasoline from elsewhere, including Europe, which is also looking increasingly tight. The US energy secretary has also not ruled out restricting petroleum exports, given rising prices. Up until now the US administration has been reluctant to go down this route and instead has focused on releases from the Strategic Petroleum Reserve. Whilst these releases may offer some relief to crude oil prices, they may do little to ease gasoline shortages if the bottleneck is on the refining side.

It's looking unlikely that differences over an EU ban on Russian oil imports will be resolved at next week's meeting of EU leaders. The Hungarian Prime Minister has reportedly said that meetings on 30 and 31 May would not be an appropriate place to discuss the ban, whilst the European Commission President has also made similar comments. Therefore, the uncertainty over a Russian oil ban looks as though it will hang over markets for quite a bit longer. We continue to believe that the EU will eventually agree on a ban and, assuming it is not too different to the current proposal, we would expect the move to be supportive for prices, particularly over 2H22.

Austrian Gas Grid Management (AGGM) announced the results of its recent purchase tender for natural gas for strategic reserves. The tender attracted 189 bids, which ended up seeing AGGM buying 7.7TWh of storage at an average price of EUR124.50/MWh including storage costs through until April 2023. This price is well above the current prompt price in Europe of around EUR85/MWh. Austrian gas storage levels are well below average at the moment - inventories are 29% full compared to a 5-year average of almost 45% at this stage of the year.

EU allowances saw somewhat of a recovery yesterday, following the weakness seen over the past week due to EU plans to sell EUR20b worth of allowances from the Market Stability Reserve. The Dec-22 contract rallied by 4% yesterday to settle at EUR81.32/t, although it is still some distance from the more than EUR92/t we saw it trading at early last week. The catalyst for yesterday's move appears to be comments from an EU official who was more supportive about the role that financial institutions play in the EU carbon market. This comes after the EU Parliament's Environment Committee supported a proposal to restrict speculative activity in the EU carbon market.

Agriculture

There appears to be a growing trend of protectionist measures taken by governments around the world, given concerns over food security and inflationary pressures. After India recently surprised the market with a ban on wheat exports, the Indian government has now announced that it will limit sugar exports to 10mt in the current 2021/22 season, which ends in September. India is set to be the third-largest sugar exporter this season, behind Brazil and Thailand. The announcement is somewhat surprising, given that India has had a very strong sugarcane crop this season. However, as reflected in the price action, the market is not too concerned at the moment about this export limit, given that most in the market have been expecting Indian sugar exports this season to total around 9mt, so below the export limit. The bigger concern is that we see other countries taking similar action when it comes to agricultural commodity exports. Apart from the action taken by India, Malaysia is also set to ban chicken exports, whilst Indonesia has gone back and forth on a palm oil export ban.

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