

The Commodities Feed: Gas prices surge

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Energy

ICE Brent continued the rally yesterday on expectations of a tight market, ending with gains of around 1.6% to US\$82.6/bbl. Saudi Arabia reduced its Official Selling Price (OSP) for nearly all crude oil grades going into Asia, Europe, the Med or the US for November shipments. Aramco's flagship Arab Light prices for Asian buyers were cut by US\$40/bbl to a premium of US\$1.3/bbl above the benchmark; the lowest premium since March 2021. Arab Light was reduced by US\$70/bbl for European shipments to a discount of US\$2.4/bbl below the benchmark while for the US, prices were cut by US\$10/bbl to a premium of US\$1.25/bbl above benchmark. Firm crude oil prices in the global market and continued output increments from the OPEC+ appears to have weighed on the Saudi price decision even as energy demand in the physical market remains strong.

The latest API numbers show that US crude oil inventory increased by 951Mbbls over the last week with Cushing inventory increasing by around 2MMbbls. If confirmed by EIA later today, this will be the 2nd consecutive week of inventory build after a sharp 4.6MMbbls of inflow into storage tanks over the preceding week. Product inventory also increased over the last week, with gasoline and distillate stocks up by 3.68MMbbls and 0.35MMbbls respectively.

Natural gas saw another price spurt yesterday with ICE NBP increasing by around 20% to settle at GBp293.9/therm whilst NYMEX Henry Hub also increased, by around 9% to US\$6.3/MMBtu on

account of multiple factors including high power prices, low gas inventory, limited supply from Russia and possibilities of a colder winter. Low gas inventories across the globe as winter approaches have been pushing up demand in the physical market whilst supplies have been slower to respond. Unplanned outages at some French nuclear power plants due to a strike has also helped the rally in European power prices yesterday and supported gas demand in the spot market.

Metals

Industrial metals traded mixed yesterday. Copper prices ended almost 1% lower amid increasing concerns in China's real estate sector. Reports indicate that Chinese property developer Fantasia Holdings Group Co., failed to repay a maturing bond, escalating the debt crisis worries which started with China's Evergrande Group. Meanwhile, Aurubis has lifted its copper premium to \$123/t for 2022 contracts, the highest in almost a decade according to Bloomberg reports.

The jump in energy prices as gas prices spiked over 20% yesterday continues to highlight the risks of supply chain disruptions in the metals sector. There were reports yesterday that one of the aluminium smelters had decided to curtail production by 20%. This came after energy-related disruptions at two zinc smelters recently. Turning to Asia, Japanese aluminium premiums have risen for five quarters in a row and the latest 4Q21 premiums were reported to be settled at US\$220/t for 4Q21, up 19% from the previous quarter. This is the highest level since 2Q15 and has more than doubled in a year.

Lastly, Vale was ordered to halt nickel mining activities at Onca Puma in northern Brazil after local environmental authorities suspended its license. However, the processing plant continues to operate using stockpiled ore. Operations at Onca Puma had resumed in September 2019 after a two-year halt. Meanwhile, the latest government data shows that copper output in Peru rose 4.6% YoY and 6.6% MoM to 203kt in August. The increase was primarily driven by healthy operations at the Antamina and Cerro Verde mines, whilst new mine Mina Justa also contributed to some extent.

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