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COMMODITIES DAILY

The Commodities Feed: LNG offers little respite to tight European gas market

Your daily roundup of commodity news and ING views



Energy

ICE Brent had a strong day yesterday, trading to its highest levels since the end of July. The rally in oil was part of a larger risk-on move in markets. This is despite a relatively hawkish FOMC meeting. Not only is Fed tapering expected to be announced in November, but rate hike expectations for 2022 are also growing amongst FOMC members

Oil fundamentals remain constructive, particularly in the US. The EIA reported in its weekly inventory release that US commercial crude oil inventories declined by 3.48MMbbls over the last week. This takes total US crude oil inventories to just below 414MMbbls, which is the lowest level seen since October 2018. While US oil production is estimated to have increased by 500Mbbls/d over the week to 10.6MMbbls/d, it is still well below the 11.5MMbbls/d seen pre-Hurricane Ida. The data also shows that refiners are recovering at a quicker pace following the storm. Crude oil inputs for refiners increased by 960Mbbls/d over the week, which saw utilisation rates increase by 5.4 percentage points to 87.5%. Prior to the storm, refiners were operating at more than 91% of capacity. Stronger refining activity saw gasoline inventories grow by 3.47MMbbls over the week. Stronger imports of gasoline also contributed to the inventory build. Gasoline imports into the US Gulf Coast hit their highest levels in over a

decade.

The natural gas market continues to trade at elevated levels as concerns around tightness going into winter continue to linger. European gas storage is a little over 72% full, compared to the 5-year average of around 88% for this time of year. At times, it has appeared as though LNG supplies could offer some much-needed relief to the European gas market. However, spot Asian LNG prices have more than kept up with the strength in the European market. So, with the spot Asian market trading at a premium to Europe, spot LNG flows are likely to continue to make their way into Asia, rather than relieving some of the tightness in Europe.

Metals

The power crunch continues to escalate within China. Grid companies have issued joint warnings on power shortages and the requirement for staggering power usage. This has led to disruptions to multiple industries, including metals smelting and downstream semi-fabricating. Moreover, the surge in thermal coal prices has further heightened the risk to the domestic power supply.

The latest data from International Lead and Zinc Study Group (ILZSG) shows that the global zinc market remained in a marginal surplus of 11kt between January and July 2021, much smaller than the 420kt surplus seen during the same period last year. Total refined zinc production rose by 4.4% YoY to 8.15mt, while total consumption jumped 10.2% YoY to 8.14mt in the first seven months of the year. As for lead, total production rose 6.9% YoY to 7.1mt, while consumption increased 8.3% YoY to 7mt between January and July 2021. As a result, the lead market was in a surplus of 96kt in the first seven months of the year, compared to a surplus of 175kt over the same period last year.

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THINK economic and financial analysis

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