

# The Commodities Feed: More details on IEA stock release

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## Energy

Oil markets came under pressure yesterday. ICE Brent settled more than 5% lower on the day, taking the market to its lowest levels since mid-March and leaving it not too far off from the US\$100/bbl level. The market is recouping some of these losses in the morning Asian session today. Hawkish Fed minutes would have contributed to the downward pressure, along with the deteriorating Covid situation in China. The key catalyst appears to have been confirmation from the IEA that member countries (excluding the US) would release 60MMbbls from their emergency stockpiles. This will mean that a total of 240MMbbls will be available for release when taking into consideration the previously announced 180MMbbls from the US. The IEA number is in excess of the 30-50MMbbls that Biden previously suggested we could see from other countries. These volumes are significant, although still fall short of the 2MMbbls/d of Russian losses that we estimate due to self-sanctioning. Whilst the SPR release has put pressure on the front end of the curve, further down the curve we have seen strength, given the expectation that stockpiles will need to be replenished at a later date.

The EIA's weekly inventory report shows that US commercial crude oil inventories increased by 2.42MMbbls over the last week. Total US crude oil inventories declined by 1.32MMbbls due to a

drawdown in SPR stocks. Crude stocks at Cushing increased by 1.65MMbbls. This takes stocks at the WTI delivery hub to levels last seen back in mid-February, although standing at 25.9MMbbls, it still leaves inventories at historically low levels. Turning to refined products, gasoline stocks declined by 2.04MMbbls over the week, whilst distillate fuel oil inventories increased by 771Mbbls. Despite the increase in distillate stocks, inventories are still at their lowest levels since 2014 for this time of the year. The tightness in middle distillates that we are seeing globally suggests that cracks will remain well supported, particularly given the uncertainty over Russian middle distillate supply.

The prompt supply picture for the European natural gas market continues to improve. The large premium that we have seen Europe trade to spot Asian LNG in the prompts has narrowed significantly, leaving little between the two regions. The latest data shows that inventories in the EU are now above where they were at this stage of the year in 2018 and are basically at the same level we saw at this time in 2017. Assuming we continue to see no interruptions in Russian gas flows during the injection season, Europe should enter the next heating season with adequate stocks. That is a big assumption and something that the market does not have confidence in. This explains why the market continues to price in such a large risk premium.

## Metals

LME European based warehouses have seen on-warrant zinc stocks fall to only 25 tonnes as of yesterday; meanwhile, off-warrant stocks have depleted completely as of January, according to the latest available data from LME. Stocks are also at critically low levels in the US market, standing at just 550 tonnes. Currently, the majority of zinc on-warrant stocks are sitting in Asia, namely Malaysia and Singapore, which are at 45.2kt (99% of the total LME on-warrant stocks). The distribution of LME stocks also reflects the different degrees of market tightness between western and Asian markets. The exchange serves as the last resort for metal, but there is now no buffer for a quick turnaround for consumers in the region. The risk is rising of a squeeze in the LME zinc market. Consumers would be forced to pay a much higher premium to get zinc from elsewhere to avoid disruptions to operations.

Like other base metals, China is usually a major importer of metals. But the market dislocation has led to the export of some metals, including zinc, copper and aluminium. During the first two months of this year, China exported about 11kt of refined zinc to Europe, mainly to Turkey. This is only a reprieve, and the reversed trade flows are unlikely to be sustained for large volumes. Also, vessels have started to queue up again in Shanghai amid the recent Covid outbreak and local lockdowns, which is leading to more logistical difficulties and potentially higher freights and a longer lead time to get the metals distributed. As European refined zinc supply is still capped by high power prices, the concentrate market has become looser. In other words, it is refined zinc supply which remains the bottleneck and there seems to be no quick fix to the problem.

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