The Commodities Feed: Natural gas volatility continues

Your daily roundup of commodity news and ING views

Gas storage tank

Energy

It was another volatile day in the natural gas market yesterday. TTF prices traded to an intraday high of a little more than EUR162/MWh (up around 40%), which is yet another record high. According to S&P Platts, the spot JKM benchmark broke above the US$50/MMBtu mark for the first time ever yesterday to US$56.326/MMBtu. The market also saw its largest single day increase – up US$16.655/MMBtu on the day. Asian prices continue to hold their strength, with the region having to compete with Europe for spot LNG cargoes. The Asian spot LNG market is trading at an oil equivalent of around US$320/bbl, while Brent is trading nearer US$81/bbl. Therefore, the incentive for gas to oil switching is only getting stronger.

In Europe, the latest data shows that storage is around 76% full compared to a 5-year average of around 90% for this stage of the year. This should still edge higher in the coming weeks. We generally only start to see gas storage falling towards the end of October/early November, despite the winter gas season officially starting on 1 October. While European intraday prices hit record levels yesterday, TTF did give back all these gains to settle almost 7% lower on the day. Comments from Vladimir Putin appear to have provided some comfort to the market. The Russian president said that Russia would be willing to help stabilise gas markets. This, however, may depend on a quick approval of Nord Stream 2.

The EIA released its weekly inventory report yesterday, which showed that US crude oil inventories increased by 2.35MMbbls over the last week. This was more than the roughly 1MMbbls increase the market was expecting and also larger than the 951Mbbls reported by the API the previous day. The larger-than-expected build was driven by a 906Mbbls/d decline in crude oil exports over the week. In addition, crude imports were stronger over the week, along with domestic output. Gasoline stocks saw a larger-than-expected increase, growing by 3.26MMbbls over the week. This was partly driven by an increase in refinery activity, with utilization rates increasing by 1.5 percentage points over the week to 89.6%.

Finally, the US Energy Secretary said that the US has various tools to try to rein in energy prices, including a potential release of oil from strategic petroleum reserves. The Energy Secretary also did not rule out the possibility of an export ban on crude oil. If an export ban was the route the US decided to take, we would likely see a widening in the WTI-Brent spread.

Metals

Fears growing over surging energy prices that may potentially derail the economic recovery, along with a firmer dollar is weighing heavily on industrial metals. Copper shrugged off the latest supply-side disruptions, including a fire that halted production at Vale's Salobo mine and the blocking of a road to Glencore's Antapaccay mine in Peru. The 3M contract price briefly slipped below $9,000/t in London amid a thin market in the absence of Chinese onshore traders. Aluminium also took a hit despite elevated supply-side risks. LME aluminium stocks continue to decline, falling to below 1.2 million tonnes which is the lowest level since April 2020.

As for nickel, the latest data from the International Nickel Study Group (INSG) shows that the global nickel market is shifting to a small deficit of 134kt this year; however, it is expected to move back to a modest surplus of 76kt in 2022. Global mine production is expected to rise by 148kt to 2.64mt this year, and then rise further to 3.12mt in 2022. While global demand is estimated to rise by 389kt to 2.77mt this year and is forecast to rise to 3.04mt in 2022.

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