

The Commodities Feed: No stopping the gas rally

Your daily roundup of commodity news and ING views



Energy

It's shaping up to be an interesting winter for energy markets. Bloomberg reports that the Chinese government held emergency meetings with domestic energy companies this week, ordering them to ensure adequate supply over the winter "at any cost". This suggests that already very elevated LNG and thermal coal prices could be further bid up by Chinese buying. Spot Asian LNG prices are now trading above US\$31/MMBtu, rallying more than 70% over September. It's hard to believe that just 18 months ago the Asian LNG market saw record low prices of below US\$2/MMBtu. If we do see strong Chinese buying, it will put further pressure on the European natural gas market. Already TTF gas prices hit new record levels yesterday, and the market is on the brink of breaking above EUR100/MWh. Given the tightness in the European natural gas market, prices will need to trade at levels where they can compete with Asia for spot LNG cargoes.

Strength in the gas market continues to be supportive for oil prices. Spot Asian LNG is trading at an oil equivalent of around US\$177/bbl and so there is a clear incentive for gas-to-oil switching. As we have mentioned in previous notes, this switching is something that we are already seeing in the power generation sector, particularly in markets such as Pakistan and Bangladesh. This suggests that we should see stronger oil demand in the coming months, which means a tighter than

expected oil market through until the end of the year. However, much will depend on what OPEC+ decide when they meet on 4 October. Given the current environment, we believe it is safe to assume that an increase of at least 400Mbbls/d for November is guaranteed. The bigger uncertainty is whether the group will be willing to ease more aggressively.

Metals

The contraction in China's manufacturing PMI numbers and continued strength in the US dollar pushed industrial metal prices lower yesterday. LME copper fell by more than 2% and settled below US\$9,000/t. Part of the downward pressure on copper was a result of an easing in supply concerns. Protestors agreed to temporarily lift a blockade of roads leading to the Las Bambas copper mine in Peru. The latest government statistics from Chile show that copper production declined 4.6% YoY in August, primarily due to labour strikes at major mines and falling ore grades. Total copper output fell to 467kt in August, whilst year-to-date production fell 1.2% YoY to 3.77mt.

The latest reports suggest that aluminium smelters in western Chinese provinces of Xinjiang, Ningxia, Shaanxi and Qinghai may start curbing aluminium production in the last quarter as emissions curbs intensify. The smelting capacity in these regions totals 10.9mtpa, almost 30% of the national operating capacity. For the first three quarters of the year, a total of 2.03mt of aluminium capacity was shut down due to environmental policies and power shortages.

Agriculture

In its latest Cereals Market Situation report, the European Commission increased its soft-wheat production estimates to 131mt for 2021/22 (+11.9% YoY) compared to its earlier estimate of 127.2mt. The upward revision was largely driven by Poland and Spain. The Commission increased its acreage estimates to 21.7m hectares (+4.7% YoY), while yield estimates were also revised higher from 5.95t/ha to 6.04t/ha. Consumption and export estimates were left unchanged at around 97mt and 30mt respectively for the season. As a result, ending stocks for 2021/22 were increased to 13.2mt from 9.3mt. Among other crops, corn production estimates were revised down from 71mt to 68.8mt due to softer yields. This lower production has meant that ending stock expectations have fallen from 17.9mt to 16.2mt.

The USDA also published its quarterly grains inventory report yesterday and reported smaller stocks this year compared to year-ago levels. The agency reported US corn stocks as of 1 September to be around 1.24b bushels, down 36% YoY; the market was expecting stocks to be around 1.15b bushels. For soybeans, the USDA estimated stocks as of 1 September at around 256m bushels compared to 525m bushels this time last year. Finally, wheat stocks as of 1 September were estimated at around 1.78b bushels, down 18% YoY.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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