The Commodities Feed: US gasoline tightness

Your daily roundup of commodities news and ING views

Energy

The oil market has seen a partial recovery in early morning trading today, after Brent settled more than 2% lower yesterday. Reports that the US is looking to ease some sanctions against Venezuela contributed to yesterday's weakness, with it thought that the easing could see a partial resumption of Venezuelan oil to Europe. Any increase is likely to be rather limited, at least in the short term.

There are growing concerns over the refined products market. What started out as a tight middle distillate market appears to be spreading into the gasoline market, at least for the US. At a time when US gasoline inventories should be building ahead of the driving season, inventories instead have declined for most of this year. These are now below the low end of the 5-year range. Gasoline demand should only increase over the coming months and, in the absence of a pick up in refinery runs, the gasoline market is likely to continue to tighten. The tighter gasoline market appears to have also contributed to a narrowing in the WTI/Brent discount, given the need for higher US refinery runs, which should be supportive for US crude demand. Gasoline stocks in the ARA region of Europe are more comfortable, and are at least at a decade high for this time of the year. Given the tightness on the US East Coast and more comfortable European stock levels, we would expect to see a pick-up in European gasoline flows to the US East Coast in order to help alleviate some of this tightness.

API numbers released overnight confirm the tightening in the market. US crude oil inventories are reported to have fallen by 2.4MMbbls, whilst stock levels at Cushing, the WTI delivery hub, fell by 3.1MMbbls. It was the gasoline market which saw the largest decline, with stocks falling by 5.1MMbbls over the last week. EIA numbers will be released later today.

The EU carbon market saw some strength yesterday, with the market breaking above EUR91/t. The European Parliament's Environmental Committee voted yesterday on reforms to the EU ETS. The committee agreed on the need for more aggressive carbon emission reduction targets. The committee would like to see emissions covered by the ETS fall by 67% by 2030 from 2005 levels, this compares to the initial proposal for a 61% reduction. In order to achieve this, the committee has recommended that the amount of emission allowances should be reduced by 4.2% in the first year the reform starts, and then this reduction should increase by 0.1% each year through until 2030. The committee also wants to see the phasing out of free allowances between 2026 and 2030, and the full implementation of the EU Carbon Border Adjustment Mechanism (CBAM) by 2030, which would be 5 years earlier than currently proposed. In addition, the Environmental Committee wants to phase out free allocations for the aviation sector by 2025, which would be 2 years earlier than the Commission had proposed. The proposal will also see maritime transport included in the ETS from 2024, which would cover 100% of intra-EU routes, and 50% of emissions from extra-EU routes coming in and out of the EU initially. Finally, the committee also agreed on the implementation of another emission trading system for commercial buildings and transport, which would start in 2025, whilst private buildings and transportation will be excluded from this new ETS until at least 2029. This latest proposal will be put to a vote in parliament next month, after which negotiations between member states will likely start.

Metals

Latest reports that Shanghai might start relaxing its two-month lockdown after three days of zero community transmission, along with better-than-expected retail sales and consumer spending data from the US, were constructive for risk assets yesterday. Most base metals settled higher on the day, with LME aluminium closing more than 2% up. Shrinking LME inventories have provided some support to aluminium. The latest LME data shows that on-warrant inventories for the metal fell for an eighth consecutive day to a new record low of 230kt yesterday.

Turning to steel, and China Iron & Steel Association (CISA) said that China will keep its restrictions on new steel capacity intact and would push for more mergers and acquisitions within the industry. Due to ongoing Covid-related restrictions, steel demand has remained under pressure recently, but this should improve as the Covid situation improves. Mysteel expects China's steel demand over 2H22 to rise by 10% compared to 1H22, whilst YoY growth is expected to hit 15% in 2H22. This growth is expected to be supported by local government policies.

Agriculture

CBOT wheat continued to trade firm yesterday, even after India relaxed its stance with its recently announced export ban on wheat. New directives from the Indian government indicate that the restrictions will not apply to wheat shipments that have already been handed over to the customs department for clearance and loadings. However, the export restrictions will still apply to wheat sales where the shipments are not yet finalised through the issuance of irrevocable LoC. Reuters reported that only around 400kt of wheat (out of around 2.2mt of wheat currently at ports) would be eligible for relief and likely to be exported. The relaxation is unlikely to provide much relief to the global market.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

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