

The Commodities Feed: Aluminium stocks grow

LME aluminium inventories continue to grow, raising speculation of inflows of unwanted Russian metal. Meanwhile, the European natural gas market continues to come under pressure with storage still filling up and the European Commission working on a proposal for EU energy markets



Energy- European natural gas prices fall further

Although oil prices traded in a fairly large range yesterday, ICE Brent managed to settle little changed from Friday's close. The strength in equities and the weakness in the dollar failed to push oil prices higher. Instead, the market still seems wary of the demand outlook for the market. President Xi has made it clear that China will continue to follow a zero-Covid policy, which raises uncertainty over Chinese oil demand through 2023. Recession concerns elsewhere only add to the market's uncertainty.

The EIA yesterday released its latest drilling productivity report, in which US shale oil production is forecast to average 9.105MMbbls/d in November, up from an estimated 9.001MMbbls/d in October. Unsurprisingly, the Permian region is expected to drive the bulk of this growth with output expected to increase by 50Mbbbls/d, whilst Bakken and Eagle Ford are forecast to see output increase by 22Mbbbls/d and 18Mbbbls/d respectively. The report also showed that drilled but uncompleted wells (DUCs) continue to decline. DUC inventory fell by 10 to total just 4,333 at the

end of September. This is the lowest number since at least 2014. US producers have been relying on DUCs to sustain production growth at a time when we are not seeing significant growth in drilling activity. However, as the number of DUCs continues to decline so does the rate at which they decline. In 2021 the average monthly decline in DUCs was 219 vs. 76 so far this year.

European natural gas prices came under further pressure yesterday. The Nov-22 TTF contract fell close to 10%, leaving the market at just under EUR128/MWh, which is the lowest level since June. There is now a fairly strong contango in the front end of the curve, as the market seems less concerned about supply in the near term, but is much more concerned about 2023 supply and the region's ability to build adequate storage ahead of the 2023/24 winter in the absence of Russian supply. For now, though, EU storage continues to increase with the latest numbers from Gas Infrastructure Europe showing storage is more than 92% full. Although, with the 2022/23 heating season still ahead of us, it is important that the market doesn't get too complacent about the supply/demand picture in the near term.

The European Commission also continues to work on proposals for the EU energy markets, which according to reports, could include a proposal for a temporary dynamic price limit on TTF. In addition, there are suggestions that the voluntary gas demand cut of 15% could become a mandatory cut. Proposed measures will be discussed by EU leaders when they meet on 20-21 October.

Metals – LME aluminium stockpiles jump most since February

LME aluminium prices fell by more than 3% after large inflows into exchange warehouses. The latest LME data showed arrivals of 65.8kt, the biggest daily addition since February, taking total stocks to 433kt, the highest since 8 June. The majority of the inflows were reported in Gwangyang in South Korea and Port Klang in Malaysia, raising speculation that large volumes of unwanted Russian metal could be starting to arrive at the exchange's warehouses.

Union members at Antofagasta's Los Pelambres copper mine in Chile have reached an agreement with the management, avoiding a strike, according to media reports. The union members failed to reach an agreement during a formal discussion two weeks ago. The mine produced around 336kt of copper last year.

According to the latest forecast from the Ministry of Economy, Trade and Industry (METI), crude steel production in Japan is expected to drop by 6.8% YoY (fourth consecutive quarter decline) to 22.5mt in 4Q22. The group expects Japan's total crude steel output to decline by 5.6% YoY to 90.99mt during the 2022 calendar year.

Agriculture – rising Indian sugar output

The Indian Sugar Mills Association (ISMA) projects that India's sugar production will increase by 2% YoY to 36.5mt in the 2022/23 marketing year that started this month. Sugar output without the diversion of cane juice and B-heavy molasses is expected to be around 41mt in 2022/23, compared to 39.2mt a year ago. On the consumption side, the group expects Indian sugar demand to total around 27.5mt in 2022/23, while opening stocks were 5.5mt as of 1 October. This leaves a large exportable surplus from India. However, mills are still waiting for an announcement with regard to the export policy for sugar. The Food Secretary in India has said that the government is set to announce the sugar export quota for the season (that began in October) within a week.

Data from the National Oilseed Processors Association (NOPA) showed that soybean crushing in the US dropped to the lowest level in a year and also came in below market estimates of 161mn bushels. Soybean crushing fell 4.5% MoM to 158mn bushels in September, as the crushing pace slowed due to seasonal maintenance and repair downtime ahead of the fall harvest. However, it was still up 2.8% YoY. Meanwhile, soy oil supplies among NOPA members dropped to 1.5 billion lbs (lowest since September 2020) as of 30 September, down from 1.6b lbs a month earlier and lower than the 1.7b lbs seen at the same stage last year.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.