

The Commodities Feed: Aluminium supply woes grow

The bulk of the commodities complex has come under pressure recently, with sentiment remaining fairly negative. Aluminium managed to buck the trend yesterday, settling up on the day as Chinese supply risks continue to grow



China Jiangsu metal processing plant workshop

Energy - China refined product export quotas

Oil prices were unable to escape the broader pressure on risk assets yesterday. ICE Brent settled almost 3.5% lower on the day. Lingering demand concerns over China have hit sentiment, whilst recent weakness in refinery margins is certainly not helping. While our balance suggests a well-supplied market for the remainder of the year, the potential for OPEC+ intervention means that the floor for the market is not too far below current levels.

The US Department of Energy has said that the refilling of the US Strategic Petroleum Reserves (SPR) will not be triggered by hitting a certain price level, and that the refilling will likely not occur before the end of 2023. Earlier this week, there were reports that the US was potentially wanting to refill the SPR if prices traded below US\$80/bbl.

ICE gasoil came under further pressure yesterday, with reports that the Chinese government may

issue another batch of refined product export quotas, which could total 15mt. So far this year, three batches of quotas have been released amounting to 22.5mt, down around 39% YoY. China has been cutting export quotas in recent years to drive consolidation in the domestic refining industry as well as to tackle pollution. Suggestions are that the government is looking at a sizeable allocation of quotas to help drive growth. If confirmed, this would be welcome news for refined product markets, particularly middle distillates, which are extremely tight at the moment.

Metals – tightening supply lifts aluminium prices

Aluminium prices climbed amid speculation that some smelters in China's Yunnan province may expand production cuts by 20-30% due to ongoing power rationing. Aluminium smelters in the region have already reduced their output by 10% since the weekend. The output cuts in China are coming on top of European and some North American smelter closures and curtailments over the past 12 months amid the worsening energy crisis.

For copper, the latest data from the LME showed on-warrant stocks rising by 10.4kt - the biggest daily increase since June 27th - to 88.8kt with the majority of the gains reported from the warehouses in the US and Asia. Despite the increase, the cash/3M spread stays firmly in backwardation of a little over US\$119/t.

ArcelorMittal SA said it expects its European steel output to drop in the fourth quarter of the year amid weak demand and high energy costs. Europe's biggest steelmaker expects its crude steel production on the continent down 1.5 million tonnes in the fourth quarter from the year before – down about 17% year-on-year.

In precious metals, gold fell to its lowest level in more than two years amid tightening monetary policy in the US and Europe. Weak economic growth in China may also impact gold jewelry demand in one of the top consumers of the precious metal.

Authors

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 <http://www.ing.com>.