# The Commodities Feed: Bearish macro keeps pressure on oil

The oil market was softer this morning as macroeconomic concerns and a firm US dollar weighed on sentiment. Russian oil supply to Poland via the Druzhba pipeline halted over the weekend although the country has ruled out any major impact in the immediate term

## Energy: Supply interruptions from Druzhba pipeline

Oil prices came under pressure in morning trade today after closing higher at the previous two consecutive sessions amid USD strengthening and macroeconomic concerns. The latest inflation report from the US has renewed concerns over higher interest rates by the Federal Reserve in the near term and overshadowed the supply outages from the Druzhba oil pipeline in Europe.

PKN Orlen SA (the largest oil company in Poland) said that oil flows stopped unexpectedly via the Druzhba pipeline from Russia over the weekend. The pipeline has supplied around 400Mbbls/d of crude oil into Europe, mainly to Poland in recent months. However, the company said that end-users won't be impacted by the halt in the immediate term as the Russian crude makes up only around 10% of the total supply; although longer disruptions to the transit route could have some impact.

The latest data from Baker Hughes shows that the US oil rig count declined for a second consecutive week, by seven over the last week to a total rig count of 600. The number of active rigs in the US has been falling gradually since the start of the year. This is not a great signal for the market in terms of US supply growth, particularly with the tighter supply outlook from Russia.

The latest market positioning data shows that money managers trimmed their net long position in ICE Brent over the last week after hitting a one-year peak. Managed money net longs in ICE Brent dropped by 23,355 lots over the last week to 276,553 lots as of 21 February. Speculative net longs in ICE Brent are still comfortably higher when compared to the range over the past year and reflect the possibility of further liquidation if economic expectations deteriorate. Money managers reduced the net long position in NYMEX WTI by 3,986 lots over the last week to 184,488 lots.

## Metals: US to impose steep tariffs on Russian aluminium

On Friday, the United States announced it will impose a 200% import tariff on Russian aluminium (effective from 10 March) and aluminium products made with metal smelted or cast in Russia (effective from 10 April). The tariffs are unlikely to significantly tighten the aluminium market in the US, given the nation's small percentage share of aluminium imports from Russia. US purchases of aluminium products from Russia fell to about 200,000 tonnes last year, just 3% of total US imports - a small fraction of the global market of around 90 million tonnes. The move marked the one-year anniversary of Russia's invasion of Ukraine. We discussed this in a note released on Friday.

Meanwhile, the cash/3m spread for aluminium tightened to a contango of US$50.5/t as of Friday following the large inflows reported recently in exchange warehouses; for comparison, the market traded at a contango of US$35.5/t at the start of the year. The LME exchange inventories of aluminium witnessed inflows of 116,350 tonnes since the start of the year, taking the total stocks to 563,600 tonnes as of Friday.

The latest data from the Shanghai Futures Exchange (ShFE) shows that weekly inventories for copper and aluminium rose marginally while lead stocks declined over the last week. SHFE Copper stocks rose 2,857 tonnes last week to 252,455 tonnes (highest since April 2020), whilst aluminium inventories gained 4,504 tonnes over the week to 295,920 tonnes at the end of last week. Lead weekly stocks fell by 38% WoW (-29,210 tonnes) to 48,006 tonnes (lowest since the first week of January) as of Friday.

## Agriculture: ISO trims global sugar surplus estimates

In its latest quarterly report, the International Sugar Organization (ISO) revised down the 2022/23 global sugar surplus estimates to 4.15mt, compared to its earlier estimates of 6.19mt of surplus. The revision reflects the fall in production in India, Mexico, and Europe amid increased consumption. Global production estimates were reduced by 1.7mt to 180.4mt for the season. The organisation has also revised higher the market deficit estimates for 2021/22 from 1.67mt to 2.25mt.

As per the Indian food ministry, the State-run Food Corporation has sold around 1.81mt of wheat in the domestic market to ease local grain and flour prices. The move is part of the government's ongoing plan to supply 5mt of grains to the market to help end users combat rising prices.

The USDA's weekly net export sales report showed a fall in demand for corn and soybeans while wheat shipments increased for the week ending on 16 February. US corn shipments plunged to 848.7kt, lower than the 1,124.5kt reported in the previous week as well as below the average market expectation of 1,006kt. Similarly, soybean exports fell to 556.6kt, lower than 771.9kt in the previous week, and the average market expectation of 738kt. For wheat, the shipments rose to 418.8kt, higher in comparison to the 232.8kt reported a week ago and above the average market expectation of 259kt.

Reports from the European Commission show that the EU's soft wheat production for the 2022/23 season is projected at 126mt, slightly lower than the January estimates of 126.4mt. Meanwhile, the exports are now seen at 32mt, lower when compared to the 34mt of exports projected in December.

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