

The Commodities Feed: EU refined products ban starts

The commodity complex came under pressure along with other risk assets following the stronger-than-expected US jobs report, which increases uncertainty over the path the US Fed will take. For oil markets, the EU ban on Russian refined products finally came into force over the weekend



Energy - EU products ban

The oil market came under further pressure on Friday, along with the broader commodity complex and risk assets. Friday's US jobs report came in well above expectations, which left the market rethinking the path the US Fed could take in the months ahead. ICE Brent fell by more than 2.7% on the day and settled below US\$80/bbl. This left it down almost 7.8% over the course of last week.

Sunday saw the EU finally implement its ban on Russian refined products. The ban arrives a couple of months after the region imposed a similar ban on Russian seaborne crude oil. The ban will have the largest impact on Russian diesel and naphtha flows to the EU. However, EU buyers have had time to prepare for the ban. In the period leading to the cut-off, there were increased flows of middle distillates to the EU and this has helped to push gasoil inventories in the ARA region back up towards the 5-year average.

The G-7 price cap on Russian refined products also came into effect yesterday. This will allow G-7 shipping and insurance services to be used for the trade of Russian refined products as long as it is at or below the price cap. The group has agreed on a price cap for premium refined products (gasoline, diesel and jet fuel) of US\$100/bbl, whilst refined products such as fuel oil and naphtha (which are trading at a discount to crude oil) have had their cap set at US\$45/bbl.

Markets will have to wait a bit longer for positioning data in commodity markets following a cyber incident at a third-party provider of derivatives order management. The incident has meant that some clearing members have been unable to provide accurate and timely data to the CFTC. It is not clear when the CFTC will publish the next Commitments of Traders report.

For gas and LNG markets, Freeport LNG at the end of last week requested permission to restart ship loading, although the plant will still require further approval in order to restart commercial operations. However, despite the progress with Freeport, along with the cold weather in the US Northeast, Henry Hub continues to trade below US\$2.50/MMBtu.

Metals – Zinc stocks jump in China

Base metal inventories in Chinese warehouses have started to recover following the Lunar New Year holidays. The latest data from the Shanghai Futures Exchange (ShFE) shows that weekly inventories for zinc increased by 46,735 tonnes (the biggest weekly addition on record) to 90,983 tonnes (the highest since August) as of Friday. Other base metals also reported inflows with copper inventories reaching their highest since May 2021.

In mine supply, Southern Copper Corp. said that operations at its mines were running normally despite the ongoing political unrest in Peru that has already forced some major mines to halt their mining activities. The company reported that copper output rose 1.6% YoY to 241.3kt in 4Q22, slightly higher than an estimate of 240.5kt.

As for aluminium, the latest LME data shows that total on-warrant stocks for aluminium reported outflows of 5,225 tonnes (the biggest daily decline since 29th December) to 225,900 tonnes as of Friday. The entire outflows were reported from warehouses in Singapore. Cancelled warrants for aluminium rose by 875 tonnes (after declining for six consecutive sessions) to 169,350 tonnes, signalling potential further outflows. Meanwhile, total exchange inventories declined for the sixth straight session by 4,350 tonnes to 395,250 tonnes as of the end of last week.

Agriculture – coffee remains volatile

Arabica coffee prices softened on Friday and dropped almost 2.9% to settle at US\$172.80/lb on Friday after gaining around 25% over the past 3-4 weeks. Reports of slower exports from South America and weather-related concerns, combined with lower inventory have been supportive of coffee prices over the past few weeks. Current estimates of the market balance for 2022/23 and 2023/24 fall in a wide range which brings additional volatility for coffee prices. Earlier, the International Coffee Organization reported that global coffee exports dropped by around 8.5% YoY to 10.9m bags in December 2022 on slower exports of Arabica coffee, especially from Brazil and Colombia. Arabica coffee exports were down 13.7% YoY to 6.1m bags, whilst Robusta exports were largely flat and fell only 0.9% YoY to 4.8m bags. Cumulatively, global coffee exports dropped by 2.8% YoY to 30.3m bags since the season started in October 2022, with Arabica exports falling 4.5% YoY to 18.3m bags and Robusta exports largely flat at around 12m bags.

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.