

## The Commodities Feed: EU sanction plans on Russian aluminium

An easing USD offered support to the commodity complex, with oil prices edging higher this morning. On the inventory side, API numbers remained largely bullish for the oil market. Meanwhile, recent reports of EU plans to sanction Russian aluminium helped to lift aluminium prices



### Energy – Weaker USD supports the complex

- The oil market has been trading higher this morning as a sharp drawdown in oil inventories reported by API helped to improve the broader sentiment. Meanwhile, a softer dollar also supported the complex. The prompt spread for Brent has moved into a deeper backwardation of US\$0.43/bbl up from just US\$0.03/bbl at the start of the year, indicating tighter near-term conditions.
- Recent numbers from the American Petroleum Institute (API) reported yesterday remained largely constructive. US crude oil inventories fell by 6.67MMbbls over the last week, significantly larger than the market expectations. Similarly, Cushing crude oil stocks are reported to have decreased by 2.03MMbbls. On the other hand, a sharp rise in gasoline stocks weighed on demand expectations. API reported that gasoline stocks jumped by

7.2MMbbls while distillates inventories fell by 0.25MMbbls, over the week ending 19 January. The more widely followed EIA report will be released later today.

- Meanwhile, the geopolitical situation in the Middle East remained uncertain. Qatar delayed LNG shipments to Europe as the ongoing tensions in the Red Sea are slowing shipment deliveries. It has been reported that Qatar has diverted at least six shipments heading to Europe from its regular Red Sea route since 15 January. However, despite the transport challenges, Qatar has not reduced its LNG exports with shipments for the last two weeks estimated to be up 7% compared to the same period last year. The gas market has managed to remain largely unaffected so far with the recent disruptions in the Red Sea. European gas futures continue to trade near six-month lows due to weak industrial demand, availability of alternative LNG supply and higher inventory levels.

## Metals – Aluminium gains on EU sanction threats

- Aluminium prices rose over 3% yesterday and led the gains among base metals after reports suggesting the possibility of further sanctions by the European Union on Russian aluminium. There are speculations of a potential complete ban on aluminium imports in the upcoming Russian sanctions package scheduled to be released next month. Russian metals had broadly escaped sanctions until last month, when the UK prohibited British individuals and entities from trading physical Russian metals, including aluminum, nickel and copper. UK is the only country in Europe to have adopted such measures. This could potentially lead the LME to reopen the debate over whether it should ban deliveries of Russian metal. Just over 90% of the aluminium on the LME was of Russian origin at the end of December.
- Steel inventories at major Chinese steel mills rose for a second consecutive week to 15.4mt in mid-January, up 6.7% compared to early January, according to data from the China Iron and Steel Association (CISA). This indicates that Chinese mills are restocking inventories as they remain optimistic about the near-term demand outlook. Meanwhile, crude steel production at major mills rose 3.7% from early January to 2.09mt/d in mid-January, as many mills resumed production activities post-maintenance.
- In nickel, the data from the International Nickel and Study Group (INSG) shows that the global nickel market remained in a supply surplus of 35,300 tonnes in November, when compared to a marginal surplus of 7,800 tonnes in the same period last year. Earlier, the global nickel market saw an oversupply of 26,000 tonnes in October as well. Cumulatively, the nickel market encountered a supply surplus of 212,500 tonnes in the first eleven months of 2023, up from the surplus of 80,200 tonnes seen in the same period last year.
- Lastly, the latest LME COTR report released yesterday shows that investors decreased net bullish positions for copper by 2,478 lots for a third consecutive week to 54,375 lots in the week ending on 19 January. Similarly, money managers reduced net bullish bets in aluminium by 4,459 lots for a second straight week to 109,596 lots as of last Friday. In contrast, net bullish bets for zinc rose by 2,322 lots (after reporting declines for two straight weeks) to 29,776 lots at the end of last week.

## Agriculture – Cocoa jumps on supply woes

- Cocoa futures trading in New York surged to fresh record highs yesterday on the back of a worsening supply outlook from the top producers - Ivory Coast and Ghana. Recent reports suggest that weather conditions and the insufficiency of fertilisers in these countries have resulted in lower output levels. Meanwhile, total cocoa arrivals at the Ivory Coast ports so far

this season have dropped to 951.7kt as of 21 January, down 37% for the same period last year.

- The latest data from the Indian Sugar Mills Association (ISMA) shows that Indian sugar production dropped 5.3% YoY to 15mt for the 2023/24 season until 15 January. Sugar production has been recovering over the past few weeks and the Association estimates that total sugar production for the 2023/24 season could still be higher than its earlier estimates on improving weather and higher prices for sugarcane to farmers. The Association also requested the government to allow an additional 1-1.2mt of sugar diversion for ethanol production citing sufficient availability for the domestic market.
- In its latest weekly report, the European Commission revealed that the EU's soft wheat exports for the ongoing season stood at 17.4mt as of 19 January, down by 7.6% compared to 18.8mt reported in a similar period a year ago. The major destinations for these shipments were Morocco, Algeria, and Nigeria. The commission added that the nation's corn imports stood at 9.9mt, down 42% compared to a year ago.
- Agriculture and Agri-Food Canada (AAFC), in its first estimates for the 2024/25 season, expects Canada's wheat production to increase 4.2% YoY to 33.3mt. The group estimates yield to rise to 3.23t/ha from 2.99t/ha, whilst harvest area is expected to decline from 10.94m hectares to 10.73m hectares for the 2024/25 season.

## Author

### Ewa Manthey

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

### Warren Patterson

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

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