

The Commodities Feed: Further US SPR releases

The US administration is set to announce further releases from the Strategic Petroleum Reserve today, although this volume is part of the larger 180MMbbls announced earlier in the year. More interesting are suggestions that the US will look to start refilling the SPR at or below US\$67-72/bbl



Source: Shutterstock

Energy: US SPR release and refill

Oil prices came under pressure yesterday after reports that the US would announce a further release from its Strategic Petroleum Reserve. The latest release is expected to be announced today by President Biden and would be for 15MMbbls. However, it is important to point out that this release would be part of the initial 180MMbbls announced earlier this year and would be the final tranche of that volume. Therefore, given that this release is already factored in, the price impact should be minimal. However, there are reports that the US administration is not ruling out further releases through the winter months. The US administration will find it difficult to compensate for the OPEC+ supply cuts with just SPR releases. In the medium- to longer-term, SPR releases are supportive for the market, given the need for the US to refill. Bloomberg is reporting that the US

administration is also planning to start refilling the SPR when WTI trades at or below US\$67-72/bbl. This should provide another floor to the market, although the key question is whether OPEC+ would allow prices to trade down to these levels or intervene (if needed) to keep prices near current levels.

The latest data from the API shows that US crude oil inventories fell by 1.27MMbbls over the last week, while the market was expecting crude stocks to increase by around 2.5MMbbls. In addition to the crude draw, the API also reported that gasoline and distillate inventories decreased by 2.17MMbbls and 1.09MMbbls, respectively. Overall, these numbers were moderately constructive and appear to be offering some support to the market in early morning trading today. The more widely followed EIA numbers will be released later today.

European natural gas prices continue to come under pressure. The TTF Nov-22 contract fell by a further 11.5% yesterday, leaving the market to trade at a little over EUR113/MWh. The market has fallen by around 40% now since the start of the month. Warmer than usual weather for this time of year and the fact that EU storage continues to fill up (currently 92% full) is easing concerns over prompt tightness in the market. However, prices from Dec-22 through to Apr-23 are trading in excess of EUR140/MWh. The forward curve continues to reflect concerns over expected tightness through 2023.

The European Commission has laid out its latest proposals for the EU energy markets, which for now does not include a gas price cap. Instead, the commission is proposing a dynamic price limit for TTF, which will be temporary and only used as a last resort. In addition, the proposal includes upper and lower daily price limits on energy derivatives to try to address volatility in markets. Furthermore, the commission wants to push the idea of joint gas purchases between member states, in the hope this would give Europe more leverage and prevent EU countries from competing against each other for supply. Finally, given the changing supply dynamics in the European gas market (the EU turning increasingly to LNG), the commission proposes a new LNG benchmark, rather than using TTF which reflects regional infrastructure bottlenecks. These proposals will be discussed by EU leaders who meet later this week.

Metals: copper inventories in China surge

Copper prices came under pressure yesterday after inventories in Shanghai jumped by a record amount, easing concerns about supply tightness. The Shanghai Futures Exchange's on-warrant stocks of the red metal ready for delivery climbed by 47,024 tonnes on Monday – the biggest daily change in data going back to 2010. As a result, the prompt SHFE timespread eased from its multi-year highs.

Japan's largest smelter, Sumitomo Metals, estimates the global nickel market to be in a deficit of 108kt in 2022 and forecasts a deficit of 63kt for a third consecutive year in 2023 due to rising demand from the batteries sector. The smelter expects global nickel demand to surge by 7.1% YoY to 3.14mt, while supply is expected to rise by 9% year-on-year to 3.08mt next year. The company forecasts demand for nickel used in batteries to surpass 500kt in 2023, compared with 410kt in 2022 and 320kt in 2021.

Agriculture: wheat declines on constructive grain-export deal talks

CBOT wheat futures dropped to the lowest level in four weeks on the back of hopes of an extension to the Black Sea grain deal, which is currently set to expire next month. The latest comments from the United Nations suggest that ongoing negotiations to renew the existing grain deal were constructive. However, there still appears to be a rush to export as much as possible through the corridor before the existing deal expires. Meanwhile, a backlog of Ukrainian grain vessels awaiting inspection has eased slightly over the weekend. As per the latest data, the backlog of inbound and outbound vessels awaiting checks stood at 131 as of yesterday, compared to 156 on Friday. The latest data shows that, around 7.7mt of grain and other food products have been exported as of 16 October under the deal.

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>.