

The Commodities Feed: Gasoil spreads surge

Oil had its best week since March following OPEC+ supply cuts, whilst gasoil time spreads have surged due to ongoing strike action at French refineries



Energy- middle distillate market surges

The oil market finished last week on a strong footing. ICE Brent managed to settle a little more than 11% higher over the course of the week - the biggest weekly increase since late March. And this leaves Brent trading near the US\$98/bbl level. The market continues to digest the announced cuts from OPEC+ and what exactly this means for the oil market for the remainder of this year and more crucially for 2023. The cut is clearly bullish. However, there is obviously still plenty of other uncertainty in the market, including how Russian oil supply evolves due to the EU oil ban and G-7 price cap, as well as the demand outlook given the deteriorating macro picture.

The latest positioning data shows that speculators increased their net long in ICE Brent ahead of last week's OPEC+ meeting. The managed money net long position increased by 27,459 lots over the last reporting week, leaving speculators with a net long of 185,332 lots as of last Tuesday. This is the largest position held since June and given the move in the market since then, it's likely that the current position is even larger. The bulk of the increase was driven by fresh longs with the gross

long growing by 24,434 lots.

The latest data from Baker Hughes shows that the US oil rig count declined by 2 over the last week to 602. The number of active rigs in the US has been largely stable since early July. This is not a great signal for the market in terms of US supply growth, particularly with the tighter supply outlook following OPEC+ supply cuts.

The European gasoil market continues to strengthen. The prompt ICE gasoil timespread has surged above US\$100/t, up from a little over US\$50/t the week before. In addition, the gasoil crack has also seen significant strength. The middle distillates market has been tight for much of the year. However, the latest move in the market is due to ongoing strike action at refineries across France. Strike action along with some other outages means that over 60% of French refining capacity is offline at the moment. Labour negotiations to bring an end to the strike are ongoing, but in the meantime, the government has released fuel from strategic reserves and there is the potential for further releases.

Metals- LME launches discussion paper on Russian metal

The LME began a formal discussion on a potential ban on supplies from Russia. Any move by the LME will have a significant impact on aluminium, nickel and copper.

Russian aluminium has accounted for as much as three-quarters of LME stockpiles over the past decade, while copper from Russia has made up as much as 95%, the exchange said.

This year, Russian exports to key markets remained unaffected with most customers likely to have entered into long-term contract agreements – Q4 should give a better sense of the direction of Russian material flows as contracts for next year are negotiated.

The launch of the discussion paper comes a day after the LME said it would ban new deliveries of metals from Russia's Ural Mining & Metallurgical Co. and one of its subsidiaries after the UK placed sanctions on co-founder, Iskandar Makhmudov. The move is the biggest restriction on Russian metal flows by the LME since Russia's invasion of Ukraine.

Agriculture – pessimistic sentiment prevails in soybeans

CBOT soybeans continued to witness a liquidation of speculative longs over the last week as better supply prospects from South America and logistical issues in the US weighed on sentiment. CFTC data shows that money managers reduced their net long in CBOT soybeans by another 17,343 lots over the last week, leaving them with a net long of 77,488 lots as of 4 October - the lowest net long position so far this year. The move lower was predominantly driven by longs liquidating with gross longs falling by 15,520 lots to 94,762 lots. The major catalyst for this move remains a buoyant outlook for the soybean crop in South America, where improved weather could help supply prospects significantly in 2022/23. Meanwhile, dry weather in the US Midwest has reduced water levels along the Mississippi river, creating logistical bottlenecks in transporting soybean cargoes to export terminals. The slowdown in exports could increase the availability of soybeans in the US domestic market.

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.