

The Commodities Feed: Geopolitical risks build

Oil prices have been somewhat insulated by the growing tension between Russia and Ukraine. However, natural gas prices have been more sensitive to these developments, while gold, as one would expect, has benefitted from safe-haven demand



Energy – Natural gas proves to be more sensitive to geopolitical risks

Oil prices edged lower yesterday despite growing geopolitical risks related to Russia and Ukraine. Having fired a US made missile into Russia earlier in the week, there are reports that Ukraine has now fired British made missiles into Russia. For oil, the risk is if Ukraine targets Russian energy infrastructure, while the other risk is uncertainty over how Russia responds to these attacks. However, as mentioned earlier in the week, Iran's pledge to stop stockpiling uranium does counter some of the geopolitical risk, with it potentially reducing some of the supply risks related to Iran ahead of President-elect Trump entering office.

EIA weekly data yesterday showed that US commercial crude oil inventories increased by 545k barrels over the last week with stronger crude oil imports (+1.18m b/d WoW) almost offset by

stronger crude exports (+938k b/d WoW). For refined products, gasoline stocks increased by 2.05m barrels, while distillate stocks fell by 114k barrels. The gasoline build came about despite refiners reducing utilisation rates by 1.2pp over the week. Lower refinery activity was more than offset by weaker implied demand. Gasoline demand fell by 964k b/d WoW.

European natural gas has been unable to escape the rising tension between Russia and Ukraine. TTF settled almost 2.5% higher yesterday on the back of this growing geopolitical risk, while the market is also keeping a close eye on Russian pipeline flows to Europe after Gazprom halted supplies to OMV. However, up until now Russian pipeline flows via Ukraine remain stable. Meanwhile, European gas storage has fallen below 90% and is also now just below the 5-year average of 91% for this time of year. The narrowing that we have seen between Asian spot LNG and TTF should mean that Europe starts to pull in more LNG as we move deeper into the winter months.

Investment funds remain bullish towards the European gas market with them increasing their net long by a little more than 47TWh over the last reporting week to almost 273TWh, which is a record high. With storage not as high as initially expected going into the winter and a number of supply risks, speculators continue to favour gas from the long side.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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