

## The Commodities Feed: Macro pressure

The commodities complex came under further pressure yesterday from a stronger USD and hawkish comments from Fed officials



### Energy - weakness persists

The oil market sold off aggressively yesterday with ICE Brent falling by more than 3.3% to settle below US\$90/bbl - its lowest close since early October. Macro developments continue to weigh on oil with a stronger USD and comments from some US Fed officials pointing towards hawkish policy. However, the sell-off in the oil market is not all macro-driven. There are signs of weakness in the physical oil market despite the looming EU ban on Russian crude oil. Prompt time spreads have also weakened significantly, suggesting that the spot physical market is loosening. The prompt WTI spread is trading at a backwardation of less than US\$0.30/bbl, compared to US\$1.18/bbl at the start of the month. Similarly, for Brent, the prompt spread has fallen from US\$1.86/bbl at the start of November to just below US\$1/bbl currently. The loosening in the market is a surprise, particularly given that we are seeing OPEC+ reducing supply at the moment. However, we still hold a constructive outlook for the market through 2023 on the back of falling Russian supply and OPEC+ cuts.

In the US, Henry Hub natural gas settled more than 2.7% higher on the day with colder-than-usual weather expected across large parts of the US in the coming days. In addition, US natural gas inventories increased by 64bcf over the week, which was below market expectations for an increase of around 66bcf. Despite coming in below expectations, this was still a record build for this

time of year and compares to a 5-year average draw of 5bcf.

## Metals – China’s alumina market to move to a surplus next year

China’s alumina market is expected to move to a surplus of 520kt in 2023 following capacity expansions, compared to a deficit of 490kt this year, according to Antaika. Total alumina capacity is already around 98mt, and China needs only about 100mt over the long term to feed aluminium capacity. Strong Chinese alumina exports (mainly to Russia) are expected to ease as other nations such as India and Indonesia increase shipments. Meanwhile, around 70% of Chinese alumina producers are currently making losses due to surging raw materials costs (primarily coal).

Refined copper output in China rose 11% YoY to 953kt in October, according to the latest data from the National Bureau of Statistics (NBS). Zinc output rose 9.4% YoY to 595kt while lead production increased 7.2% YoY to 687kt last month.

The global zinc market remained in a deficit of 43kt in the first nine months of 2022, compared to a deficit of 101kt during the same period a year earlier, according to data from the International Lead and Zinc Study Group (ILZSG). Total refined production fell 2.4% YoY to 10.1mt, due to lower output in Europe, while total consumption declined 3% YoY to 10.2mt in Jan’22-Sep’22. As for lead, total production fell 1.6% YoY to 9.1mt, while consumption remained almost flat at 9.2mt in the first nine months of the year. The lead market reported a deficit of 52kt in Jan’22-Sep’22, compared to a surplus of 75kt during the same time last year.

Sinter plants in the Tangshan region in China (a major steel-making hub) are cutting production by 30% for 10 days starting from 15th November, according to reports from Mysteel, as low profits continue to discourage domestic steel mills from resuming their full capacity. The group’s latest survey showed that Jiangsu province-based steel plants are also expected to curb crude steel output over the coming days. Meanwhile, the latest data from China Iron & Steel Association (CISA) showed that steel inventories at major Chinese steel mills were up 1.5% in early November from late October.

## Agriculture – Black Sea Grain deal renewed

Grains came under pressure yesterday after Russia agreed to renew the Black Sea grain deal, which will allow the export of Ukrainian agricultural products through Black Sea ports for another 120 days. There were no major changes made to the terms and conditions of the previous deal. While this will come as a relief, it probably is still worth pricing in some form of supply risk when it comes to Black Sea grains, given the risk that Russia could still pull out of the deal. The latest data from the UN shows that Ukraine has shipped over 11mt of wheat, corn, sunflower oil and other goods from three ports located in the Odesa region since exports resumed in August.

According to the International Sugar Mills Association (ISMA), India has entered contracts for the export of around 3.5mt of sugar so far for the 2022-23 season. Exports in October totalled around 0.2mt, below the 0.4mt shipped over the same period last year. ISMA also reported that mills have produced 2mt of sugar through until 15 November for the season that started 1 October, slightly lower than the 2.1mt produced over the same period last year. Lower production appears to be due to a number of mills in the West starting operations later this season.

## Authors

### Warren Patterson

Head of Commodities Strategy

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

### Ewa Manthey

Commodities Strategist

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