

The Commodities Feed: Oil remains under pressure

Energy markets came under further pressure yesterday as part of a broader risk-off move across markets. Meanwhile, the price action in a number of commodity markets could also be a reaction to Russian orders for a withdrawal of its troops from Kherson in Ukraine



Energy - US East Coast product inventories fall

Sentiment in the oil market remains negative, with ICE Brent settling more than 2.8% lower yesterday which saw the market trading down to levels last seen at the start of the month. Demand remains a key concern, particularly related to China's zero-Covid policy. Although a large part of yesterday's price action appears to be part of a broader risk-off move across markets with the S&P 500 down a little more than 2%.

The EIA released weekly US inventory numbers yesterday which showed that US commercial crude oil inventories increased by 3.93MMbbls over the last week. Although, when factoring in the drawdown of the SPR, total US crude oil inventories increased by just 352Mbbls. As SPR releases near an end, we are likely to see more meaningful draws in commercial crude oil inventories in the coming months. On the refined products side, gasoline and distillate fuel oil saw inventory draws of 900Mbbls and 521Mbbls respectively. These draws come despite refiners increasing run rates by 1.5pp over the week to 92.1% as they return from seasonal maintenance. Product inventories on the US East Coast remain extremely tight with gasoline inventories standing at 49.14MMbbls-

the lowest levels since 2012, while distillate stocks remain at their lowest levels on record for this stage of the year.

The IEA has criticised the decision OPEC+ made in early October to reduce production targets by 2MMbbls/d from November through until the end of 2023. The IEA has said that the move will hurt importers in Asia and Africa the most and also suggested that the group may have to rethink these cuts. In the short term it is clear that the OPEC+ decision has provided some stability to the market. However, in the medium to longer term we are of the view it will push the market into deficit through 2023, which suggests higher oil prices over the course of next year.

Metals – Chinese copper smelters call for capacity controls

China's major copper smelters, including Jiangxi Copper Corp., China Copper, Tongling Nonferrous Metals Group Holdings Co., and Zijin Mining Group Co., have called on Beijing to issue policies to "reasonably control" domestic smelting capacity in order to ensure supply-chain security and improve quality. The request comes after a surge in smelter construction in recent years has led to a fight for market share and raw material supplies. The smelters also pledged to boost the proportion of copper scrap used to make refined output to about 25% of total production by 2025.

Daye Nonferrous Metals Group and Holdings Co. is expected to start its new copper smelter in China this month, with 400kt/year operating capacity. Zijin Mining Group in China is planning to build a 500kt/year copper smelter in Sichuan province in the southwest region. It is expected that Julong copper mine in Tibet would produce 160kt of copper annually once the first phase reaches full capacity. The mine has a long-term production target of 600kt. Zijin is aiming to boost the smelter capacity to 1.8mt by 2027-28 due to rising production in the Julong mine.

LME on-warrant copper stocks fell by 6.4kt, taking the total to 39.13kt (lowest since November 2021) as of yesterday. Cancelled warrants for copper rose by 4.3kt (after declining for eight consecutive sessions) to 41.9kt as of yesterday, signaling potential further outflows. Meanwhile, exchange inventories declined for the thirteenth straight session, by 2.1kt to 81kt.

Agriculture – USDA raises domestic supply estimates for corn and soybeans

The latest WASDE report from the USDA was really a non-event, with small changes made in Domestic US and global balances for wheat, corn and soybeans. For corn, the USDA increased its 2022/23 ending stocks estimates for the US from 1.17b bushels to 1.18b bushels. This was largely due to a revision higher in domestic production on the back of expectations for better yields. As for the global corn balance, 2022/23 ending stock estimates were revised down from 301.2mt to 300.8mt- broadly in line with market expectations for a number of around 300.7mt.

For soybeans, the USDA increased its yield estimate for 2022/23 from 49.8bu/acre to 50.2bu/acre, leading to expectations of higher output. As a result ending stocks for the current marketing year were increased by 20m bushels to 220 bushels. The global soybean balance saw 2022/23 ending stocks increased from 100.5mt to 102.2mt, largely on account of revisions higher to beginning stocks.

for wheat, US ending stocks for 2022/23 were lowered from 576m bushels to 571m bushels- the lowest since 2007/08. This decrease was driven by expectations of marginally higher domestic demand. As for the global balance, the USDA increased production estimates for 2022/23 from

781.7mt to 782.7mt, whilst global demand estimates were also revised higher. As a result, 2022/23 ending stock estimates were increased marginally from 267.5mt to 267.8mt.

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.