

The Commodities Feed: Price caps and production cuts

Next week all attention will be on OPEC+ as the group decides on output policy amid recent price weakness and the uncertain demand outlook. Meanwhile, the German government has announced a EUR200bn package due to surging energy prices, which includes a price cap for gas



Source: Shutterstock

Energy - Germany gas price cap

There is increasing noise that OPEC+ will be looking to agree on an oil production cut at their meeting next week, given the broader pressure that we have seen on oil prices. However, since reports that Russia had proposed a 1MMbbls/d supply cut, there have been no suggestions from other members on the potential size of any cut. In August, OPEC+ production was estimated at around 3.37MMbbls/d below target production levels. So in reality, any cut in supply will likely be smaller than whatever figure the group announces.

The latest refined product inventory data for the ARA region shows that total refined product stocks fell by 139kt over the week to 5.2mt according to Insights Global. All products saw

declines with the exception of gasoil. Naphtha saw the largest fall with stocks decreasing by 144kt (or 33%) to 288kt. Although the reported decline seemed to have little impact on the naphtha crack. Meanwhile, for middle distillates, there was some relief with gasoil stocks increasing by 125kt over the week to 1.81mt.

The German government yesterday announced a EUR200bn package to address surging energy prices. Part of the package will include a price cap on natural gas with further details expected to be released next month. It is planned that these measures would run through until the spring of 2024. A price cap on gas is a questionable approach, as it will do little to ensure that we see the necessary demand destruction, particularly if Russian gas flows come to a complete halt. Interestingly, Germany's network regulator yesterday also warned that natural gas consumption was above average last week - coming in 14.5% above the 2018-2021 average.

Metals – LME discussing a ban on Russian metals

LME nickel and aluminium both spiked higher yesterday after it emerged that the LME is discussing potential plans to ban Russian metals for delivery into exchange warehouses. The LME is looking to launch a discussion paper on the acceptance of Russian metals in exchange warehouses which could potentially lead to tighter restrictions on the delivery of Russian metals. This is purely a discussion for now and no decision has been made yet.

Providing further support to LME metals yesterday was the softer USD. However, sentiment across broader financial markets remains negative given concerns over the macro outlook.

Glencore is reportedly reviewing the sustainability of operations at its Portovesme lead production plant in Italy as high-power prices affect profitability. The company suspended primary zinc production at the plant last year due to high power prices, although zinc recycling and lead production continued. Glencore produced around 159kt of lead in 2021 from its three facilities in Europe including Portovesme, although exact details of lead production from the plant are not known.

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>.