The Commodities Feed: Russian products ban imminent

This weekend will see the EU ban on Russian refined products come into force. The market has had time to prepare for the ban, which is reflected in the large increase in ARA gasoil inventories over the last two months

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Energy - EU ban on Russian refined products set to start

The EU's ban on Russian refined products is finally set to start this Sunday, which will have a significant impact on Russian flows of gasoil and naphtha to Europe. However, despite this imminent disruption to flows, the market appears relatively calm - the gasoil crack has been trending lower since the end of January. A likely reason for this is that the market has had a significant amount of time to prepare for the ban. We have seen strong inflows of middle distillates into Europe ahead of 5 February. The latest inventory data from Insights Global shows that gasoil stocks in the ARA region increased by 132kt over the last week to 2.32mt. This is a trend seen since early December, which has allowed inventories to edge back towards the 5-year average and leaves them at their highest levels since July 2021. However, we would expect to see tightening once the ban is in place.

Preliminary OPEC output data for January are starting to come out. Numbers from the latest OPEC survey show that production averaged 29.12MMbbls/d in January, down 60Mbbls/d MoM. Saudi production is estimated to have fallen by 100Mbbls/d to 10.38MMbbls/d, while Iranian output fell by 40Mbbls/d. Partially offsetting these declines were increases from Angola and Nigeria.

The US Department of Energy wants to cancel a 26MMbbls mandated oil release from the strategic petroleum reserve (SPR) for the 2023 fiscal year. There had been suggestions last month that the DoE wanted to make this move. However, cancelling the mandated release would need approval from Congress. This volume is separate to the emergency release of 180MMbbls announced last year. Having tapped heavily into the SPR last year, the US administration wants to refill it. At the end of last year, the DoE announced plans to buy up to 3MMbbls for the SPR, although offers were rejected.

The latest numbers from the EIA show that US natural gas storage fell by 151Bcf over the last week, which was slightly more than the roughly 145Bcf the market was expecting. However, given the milder weather seen in recent weeks, total US storage is back above the 5-year average. Comfortable storage levels and forecasts for milder weather across parts of the US continue to weigh on Henry Hub, with prices trading below US$2.5/MMBtu - the lowest level since early 2021.

Metals – Gold climbs to a nine-month high

Spot gold prices reached the highest level since April yesterday after comments from the Fed suggested that the rate hiking cycle might be nearing an end.

In copper, LME stocks fell 2.6% yesterday to 72,450 tonnes - the lowest level since March last year. This was mostly driven by withdrawals from warehouses in Rotterdam, extending the declines for a third consecutive session.

Supply-side disruptions continue to support copper prices. MMG’s Las Bambas has halted operations amid protests in Peru with the mine now going into maintenance.

First Quantum Minerals said that operations at its Sentinel open-pit copper mine in Zambia have been suspended following a traffic accident on Thursday. The mine produced 64kt of copper in 3Q22 and has an annual copper production capacity of 270kt-330kt.

Meanwhile, Freeport said that its new copper smelter development in Indonesia is expected to be completed by the end of the year. The smelter will have a processing capacity of 1.7m tonnes/year of copper concentrate.

Agriculture – Concern over Indian sugar output linger

No.11 raw sugar settled almost 1.4% higher yesterday. The market remains concerned over the Indian crop and the growing expectation that the Indian government will not approve any further sugar exports for the current marketing year. However, while a smaller harvest is expected by the end of this season, so far, domestic sugar production is up 3.4% YoY to stand at 19.4mt.

Recent estimates from the Thai Sugar Millers Corp. show that domestic sugar production will reach 11.55mt this season, 14% higher than the previous year. The group expects higher production to result in increased shipments. Domestic sugar consumption stands roughly at 2.5mt, which leaves ample supplies available for export. The latest government data show that millers have crushed 49.4mt of cane as of 30th January, resulting in a sugar output of 5.4mt so far this season. Last season, the country produced a total of 10.14mt of sugar from crushing 92mt of cane.

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