

The Commodities Feed: Russian supply cut

At the end of last week, Russia announced that it would cut oil supply by 500Mbbbls/d from next month. This does not change our view on the market, as we had already assumed that Russian supply would edge lower following the EU ban on Russian oil and refined products



Tank farm for storage of petroleum products in Volgograd, Russia

Energy- Russia announces oil supply cut

The oil market finished last week strongly, rallying by more than 2.2% on Friday. This move higher came as Russia announced that it would cut oil supply by 500Mbbbls/d from March as a response to sanctions against it. While there is an element within the market that believes that this is Russia weaponizing energy, we feel that it is more likely that Russia is simply struggling to find buyers for its oil, particularly after the EU ban on Russian refined products came into force earlier this month. These cuts do not change our view on the market, given that we were already assuming that Russia would have to reduce supply as a result of the EU ban on oil and refined products. The weakness that we are seeing in prices in early morning trading today likely reflects the market coming to the realisation that these cuts are already largely priced in.

Having rallied towards the end of last week, US natural gas prices have continued their move higher in early morning trading today. There are reports that Freeport LNG exported its first cargo

over the weekend since June last year. The ship was reportedly loaded with supply from storage, while production is expected to restart soon. Markets are eagerly awaiting the restart of the 15mtpa Freeport plant. Firstly, it will improve supply prospects for the global LNG market, which is expected to remain fairly tight this year. And secondly, it will increase demand for feed gas, which should support domestic US natural gas prices.

For the week ahead, OPEC will release its monthly oil market report on Tuesday. This report will include their latest outlook on the market as well as OPEC production numbers for January. The IEA monthly oil market report on Wednesday will follow it.

Metals – Exchange inventories continue to rise in China

The latest data from Shanghai Futures Exchange (ShFE) shows that weekly inventories for metals continued to grow over the last week. Copper stocks rose for a sixth consecutive week, increasing by 15,500 tonnes to 242,009 tonnes (highest since April 2020). Among other metals, zinc stocks rose 16% WoW to 105,669 tonnes, while aluminium inventories increased 9.6% WoW to 268,984. Both these metals saw inventories at their highest levels since mid-2022.

MMG said that the Las Bambas copper mine would continue to operate at a reduced rate as the mine was able to secure critical supplies despite road blockades. However, the company said that it is monitoring the situation and if the operating conditions don't improve, the mine would be forced to announce a period of care and maintenance.

The latest data from China Iron and Steel Association (CISA) shows that steel inventories at major Chinese steel mills rose to 16.5mt in late January, up 2.6% compared to mid-January. Crude steel production at major mills also edged higher to 1.99mt/d during the period.

Agriculture – Lower coffee shipments

The latest data from the General Department of Vietnam Customs shows that coffee exports fell 27.7% MoM to 142.5kt in January. Similarly, the Brazilian Coffee Exporters Council reported that Brazilian coffee exports declined 16.8% YoY to 2.8m bags in January, following lower supplies and producers' resistance to selling stocks at current prices. The agency reported that Arabica coffee shipments fell 18.7% YoY to 2.4m bags, whilst Robusta exports declined 12.3% YoY to 87.6k bags.

The latest fortnightly report from the UNICA shows that sugar cane crushing in Centre-South Brazil stood at 307kt over the second half of January compared to no crushing a year ago as the processing had already been halted by this time. Meanwhile, sugar production stood at just 17kt over the 2nd half of January, with around 43.1% of cane allocated to sugar production. UNICA reported just 3 sugar mills were still operating as of late January.

Data from Ukraine's Agriculture Ministry shows that farmers harvested 53.7mt of grain from 97% of the expected area as the harvest nears completion. The ministry added that the 2022 wheat harvest totalled 20.2mt, much lower than the 32.2mt harvested last season. As for corn, farmers harvested 26.4mt of the grain from 93% of the expected area.

The USDA's weekly export inspection data shows the demand for US grains remained soft over the last week. US weekly inspection of soybeans for export fell to 644kt, compared to 928kt in the previous week. Similarly, corn shipment inspections declined from 1.76mt a week ago to 1.17mt.

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