The Commodities Feed: Sanction risks linger

Oil prices edged lower yesterday despite mounting supply risks related to sanctions

Energy – Large US natural gas storage decline

Oil prices traded weaker yesterday with ICE Brent falling back below US$82/bbl. From a technicals point of view, the market is in overbought territory and so overdue a correction. However, mounting supply risks continue to provide broad support to oil prices. There are reports that the incoming Trump administration is looking at how to approach the recent sanctions placed against Russia and how they could be used as a tool to try to push Russia and Ukraine towards a peace deal. There are also suggestions that the incoming administration will take an aggressive approach towards Iran and Venezuela. The market should get more clarity following the inauguration next week.

In terms of the impact of the latest US sanctions against Russia, buyers continue to look for potential alternatives. Bloomberg reports that Saudi Aramco has received requests from Chinese and Indian buyers for as much as 750k b/d of additional oil. And clearly, the Saudis would not be the only suppliers these buyers would have approached.

The latest data from Insights Global show that refined product inventories in the ARA region increased by 125kt WoW to 6.9mt. The increase was largely driven by gasoil and naphtha which saw stocks grow by 91kt and 38kt respectively. Meanwhile, in Singapore, refined product inventories fell by 438k barrels WoW to 44.76m barrels. The fall was driven by light distillates and residuals, which declined by 556k barrels and 359k barrels respectively. Middle distillate stocks rose by 477k barrels. Both sets of numbers suggest that middle distillates remain comfortable, particularly in Europe.

EIA weekly gas storage data shows that US gas storage fell by 258Bcf last week, which is the third largest weekly decline since early 2022. Despite the large draw, it was largely in line with market expectations. Ahead of the release, the market was expecting a draw of around 260Bcf. Meanwhile, in Europe, storage continues to trend below the five-year average with it now a little over 63% full, down from 78% at the same stage last year and below the five-year average of 70% full. Milder weather is forecast in NW Europe next week, which could slow the pace of draws.

Metals – Aluminium rallies to a one-month high

LME aluminium rallied to the highest level in more than a month after inventories in China declined, signalling improved spot demand in the country. China's total aluminium inventories fell for a third straight session to 440,000 tonnes, the lowest in almost a year, data from Shanghai Metals Market showed. The rally has also been supported by reports that the European Union is considering more import restrictions on Russian aluminium. Although the EU continues to import Russian aluminium, volumes have fallen over the past two years, with European buyers self-sanctioning since the invasion of Ukraine. Russia now accounts for around 6% of European imports of primary aluminium, halving from the 2022 levels. More Russian metal has been shipped to China instead, the world's biggest aluminium consumer. We expect this trend to continue in 2025.

Agriculture – Cocoa grinding declines

Cocoa grinding data for the last quarter of 2024 was weaker amid the high-price environment in the cocoa market. Recent data from the European Cocoa Association shows that cocoa grindings fell 5.4% year-on-year (-6.3% quarter-on-quarter) to 331.9kt in 4Q24. Similarly, data released by the Cocoa Association of Asia shows that Asian cocoa grindings fell marginally by 0.5% YoY (-3.2% QoQ) to 210.1kt in 4Q24. For North America, National Confectioners Association data shows that grindings fell by 1.2% YoY (-6% QoQ) to 102.8kt. Combined fourth-quarter grindings for the three regions were the lowest since 2020, as chocolate producers continue to struggle with high prices and low inventories.

In its recent monthly update, the International Grains Council (IGC) decreased its 2024/25 global corn output forecasts from 1,225mt to 1,219mt, while consumption projections were increased to 1,239mt from a previous estimate of 1,235mt. This resulted in global corn-ending stock estimates falling from 275mt to 272mt. For soybeans, the Council left 2024/25 consumption estimates unchanged at 408mt whereas the production estimates were increased slightly to 420mt from 419mt. Steady consumption amid an increase in supply pushed the ending stock estimates to 84mt from 82mt. As for wheat, the IGC left worldwide production, and consumption estimates unchanged at 796mt and 805mt, respectively. However, ending stocks estimates were still increased from 263mt to 265mt.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

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