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COMMODITIES DAILY

The Commodities Feed: Sanctions rattle energy markets

The latest US sanction package against Russia has rattled energy markets with it pushing both oil and European gas prices higher

Energy – Sanctions see prices spike

Energy prices spiked higher yesterday as the market digested the latest US sanctions against the Russian energy sector, which targets not only production but also export flows. A large portion of Russia's shadow tanker fleet has been sanctioned, making it more difficult for Russia and buyers to circumvent the G-7 price cap. These sanctions have the potential to take as much as 700k b/d of supply off the market, which would erase the surplus that we are expecting for this year. However, the actual reduction in flows will likely be less, as Russia and buyers find ways around these sanctions – clearly there will be more strain on non-sanctioned vessels within the shadow fleet.

The announcement of sanctions also led to significant strength in the ICE gasoil crack with it trading above US$21/bbl at one stage yesterday and to its highest level since July. Russia is a large exporter of gasoil, loading almost 820k b/d in December and there will be concerns that these flows are also disrupted due to the latest sanctions.

Trade data from China yesterday showed that crude oil imports in December averaged 11.31m b/d, down 4.6% month-on-month and 1.1% lower year-on-year. This leaves total crude oil imports over 2024 1.9% lower YoY. This is only the third time since 2010 that China has seen annual crude oil imports fall YoY. The other two times were in 2021 and 2022.

It is not only oil prices that surged higher yesterday. European natural gas settled more than 7.2% higher on the day at EUR48.26/MWh. There were a number of catalysts behind the move, including that several Russian LNG projects were included in the US sanction package (Portovaya, Vysotsk and Arctic LNG 2), colder weather across parts of Europe once again, and also an alleged attack on infrastructure related to the TurkStream pipeline. Russia claimed that Ukraine attacked the compressor station on the Black Sea coast which sends gas through the TurkStream pipeline. However, the pipeline continues to operate normally. The TurkStream pipeline is the only pipeline transporting Russian gas into Europe following the stoppage of flows via Ukraine. Last year, a little less than 15bcm of Russian gas made its way through TurkStream into the EU.

The energy calendar is fairly quiet today with just the EIA releasing its latest monthly Short Term Energy Outlook and the API will release its weekly US inventory numbers.

Metals – China copper imports surge

Metal prices moved mostly higher yesterday supported by strong trade numbers from China along with Beijing's pledge to boost domestic consumption. Over the weekend, China's Ministry of Commerce vowed to "vigorously" boost consumption and stabilise foreign trade and investment this year.

China released its preliminary trade data for metals yesterday, which shows that total monthly imports for unwrought copper jumped almost 18% YoY (+6% MoM) to 559.3kt in December. Similarly, cumulative imports are up 3.6% YoY and totalled around 5.7mt last year. Meanwhile, imports of copper concentrate rose 1.7% YoY (+12.6% MoM) to 2.5mt last month, while year-to-date imports rose 2.1% YoY to 28mt during Jan'24-Dec'24. In ferrous metals, iron ore monthly imports rose 1.7% YoY (+12.6% MoM) to 112.5mt (highest since July 2020) in December. Cumulative imports rose for a second straight year to a record high of 1,236.5mt (+4.9% YoY) in 2024, as lower prices boosted buying and demand remained strong from the end-use industry. On the export side, China's unwrought aluminium and aluminium product shipments rose 3.1% YoY to 505.6kt last month. Similarly, year-to-date imports jumped 17.4% YoY to 6.7mt. Meanwhile, exports of steel products jumped 22.7% YoY to 111mt for full year 2024.

Agriculture – Chinese soybean imports fall

Recent trade numbers from China Customs show that soybean imports fell 19% YoY to 7.9mt in December, due to slower customs clearance, although imports were up 11.1% MoM. Imports for the full year were up 6.5% YoY to total 105mt in 2024. The overall rise in imports was largely attributed to a decrease in soybean prices and improved crush margins.

Weekly export inspection data from the USDA for the week ending 9 January shows that US corn and soybean inspections rose, while wheat exports eased over the last week. Export inspections of corn stood at 1,441kt, up from 877.2kt in the previous week and 956.4kt reported a year ago. Similarly, US soybean export inspections rose to 1,350.1kt, up from 1,295.4kt a week ago and 1,279.7kt for the same period last year. Meanwhile, US wheat export inspections stood at 288.9kt, compared to 412.3kt a week ago, however up from 242.4kt seen a year earlier.

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