

The Commodities Feed: Oil shrugs off latest EU sanctions on Russian energy

Oil prices showed little reaction to the EU's latest sanction package against Russia. However, it could lead to further tightening in the European middle distillates market



Energy – Further EU sanctions on Russia

The EU announced its 18th sanction package against Russia at the end of last week, which involves tougher sanctions against the Russian energy sector. This includes lowering the oil price cap for Russian crude from US\$60/bbl to US\$47.60/bbl. It will come into force on 3 September. The cap is set to be more dynamic at 15% below the average market price for Urals crude oil in the previous 6 months. It will be reviewed every 6 months, and won't change if the price movement over the reference period is less than 5%.

It's important to point out that while the EU has lowered the price cap, the G-7 cap remains unchanged. The EU would need to get the US on board to lower the cap. The issue is that the G-7 price cap has not been effective, given that Russia built up a shadow fleet of oil tankers to get around it. The EU has also sanctioned another 105 vessels, leaving a total of 444 vessels in Russia's shadow fleet affected. The lack of reaction shows that the market is not convinced by the effectiveness of these sanctions.

However, the part of the package likely to have the biggest market impact is the EU imposing an import ban on refined oil products processed from Russian oil in third countries. The EU imports

sizeable volumes of middle distillates from India and Turkey, two countries that have increased their imports of Russian crude oil since the Russia/Ukraine war. Turkey and India make up roughly 15% of the EU's total seaborne diesel imports. This measure, if implemented effectively, will lead to further tightening in the European middle distillates market, a market which has already been showing clear signs of tightness. The European Commission is yet to release full details on how this ban will work. But clearly, it will be challenging to monitor crude oil inputs into refineries in these countries and, as a result, enforce the ban.

Away from oil, the sanction package includes a transaction ban on Nord Stream 1 & 2. This will effectively prevent a restart of natural gas flows through Nord Stream 1. It also ensures that flows through Nord Stream 2, which has never been commercially operational, don't commence.

Despite oil prices having been more stable in recent weeks, the US oil rig count continues to fall. According to Baker Hughes data, the number of active oil rigs in the US fell by two over the last week, leaving the total number of oil rigs at 422. This is the 12th consecutive week of declines, taking the cumulative decline to 53 over this period.

The latest positioning data shows that speculators increased their net long in ICE Brent by 16,398 lots to 238,745 lots as of last Tuesday. The increase was predominantly driven by fresh buying. Meanwhile, speculators continue to build their net long in ICE gasoil, amid a tightening in the middle distillates market. Speculators bought 6,384 lots to leave them with a net long of 90,168 lots, the largest position since July 2024.

Metals – Orders for LME lead jump most in over a month

Requests to withdraw lead from LME warehouses jumped by 35,225 tonnes to 74,975 tonnes, driven by requests for metal in Singapore and Taiwan. This was the biggest increase since 9 June. LME lead prices jumped more than 1.8% on Friday following the jump in orders.

Data from the Shanghai Futures Exchange (SHFE) shows that weekly inventories for all base metals rose over the past week. Copper stocks increased by 3,094 tonnes to 84,556 tonnes as of Friday. Aluminium inventories rose by 5,625 tonnes to 108,822 tonnes, while zinc stocks increased by 9.3% WoW to 54,630 tonnes, the highest since 18 April.

Agriculture – Chinese grain imports fall

China Customs data show that corn imports declined by 82.7% year on year to 160kt in June, while cumulative imports fell 92.8% YoY to 790kt in the first half of the year. Earlier, a report from China's Agriculture Supply and Demand estimates (CASDE) showed that corn imports could fall to 7mt this year following weak domestic consumption. This would be less than half compared to the previous season. Meanwhile, monthly wheat imports fell 70.6% YoY to 350kt last month, while cumulative imports are down 79% YoY to 2mt.

The latest CFTC data shows that speculators boosted their net shorts in CBOT wheat for the first time in nine weeks by 4,893 lots to 60,487 lots as of 15 July. Similarly, the net speculative short position in CBOT soybeans rose by 26,062 lots to 32,278. In contrast, the net speculative short position in CBOT corn fell by 29,106 lots for a second consecutive week to 174,755 lots.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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