

The Commodities Feed: USD surge

A rallying USD following this week's hawkish FOMC meeting has kept the pressure on the commodities complex. In the short term, sentiment is likely to remain negative. However, in the medium to longer term, there are clear supply risks for a number of commodities which should prove constructive



Energy- USD weighs on oil

USD strength and a more hawkish FOMC meeting this week have proved too much for the oil market (and broader risk assets) with ICE Brent settling more than 1.5% lower on the day. The increasingly gloomy macro outlook is providing some strong headwinds to the oil market and without the supply cuts announced by OPEC+ back in October, we would likely have been trading at much lower levels. In fact, OPEC+ cuts have provided some stability to the market in the short term. However, this is likely to change once the EU ban on Russian oil comes into force next month for crude and in February for refined products.

The UK government yesterday announced that it would impose a ban on the use of UK insurance, brokerage and shipping services for the purchase of Russian oil from 5 December. This aligns the UK with similar action taken by the EU. However, under the G-7 price cap, the ban will not be applied to Russian oil bought at or below the price cap. Although, for now, it is still not clear at what level the G-7 will set the price cap.

The US natural gas market came under pressure yesterday. Henry Hub settled almost 4.7% lower over the day. The weakness in the market was driven by US inventory data which showed that US gas storage increased by 107bcf, which was above market expectations of closer to 100bcf and also well above a 5-year average build of 45bcf for this time of year. The increase means that total US natural gas storage is 3.5tcf, which leaves inventories 3.7% below the 5-year average.

Metals – Las Bambas copper mine to progressively halt production

MMG's Las Bambas copper mine in Peru will be forced to progressively halt its production due to road blockades. Since 28 October, communities have blocked the roads used by Las Bambas in Chumbivilcas and an alternate road in Paruro. Protests against the mining sector have spread to Glencore's Antapaccay, where civil organizations demand alleged unfulfilled commitments.

Readily available zinc inventories in LME warehouses jumped by 13,600 tonnes to 36,625 tonnes yesterday – the biggest tonnage increase since 14 December. The increase was driven by a drop in orders to withdraw metal from Taiwan. The cash/3m spread for zinc eased to a backwardation of US\$17.25/t yesterday compared to a backwardation of US\$38.50/t at the beginning of the week and year-to-date highs of US\$218/t on 23 June.

Ghana's only aluminium smelter temporarily shut down after pay protests threatened the safety of its operations. Volta Aluminium halted production after cutting power to its smelter because of an invasion by protesting workers. Unions representing workers are asking for a 55% pay increase and for their pay to be linked to the US dollar. The company is producing 50kt currently, below its installed capacity of 200kt, as only two out of its five pot lines are running due to a lack of maintenance and repairs.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.