The Commodities Feed: Another week passes with no EU ban

Your daily roundup of commodities news and ING views

Tank farm for storage of petroleum products in Volgograd, Russia

Energy

It appears that another week will pass with the EU still unable to agree on a Russian oil ban. While it is taking longer than expected to come to an agreement, we believe that member states will eventually come to a deal. How much of an impact this will have on the market will depend on how watered down the final agreement is relative to the proposal. The effectiveness of the ban will also depend on the actions of countries outside the EU. Bloomberg reports that China is looking to potentially buy Russian crude for its strategic reserves. Although this shouldn't come as too much of a surprise if China is set to increase its share of Russian oil purchases. The significant discounts available for Russian crude will prove very tempting for some buyers, like China and India.

Self-sanctioning will already be affecting Russian oil flows to the EU, even in the absence of an official oil ban. This has left the EU to look elsewhere for alternative supplies, and whilst the US is an obvious candidate (given the expectation of relatively strong supply growth), we could in fact see US crude exports coming under pressure given the narrowing that we have seen in the WTI/Brent discount. The July WTI/Brent discount narrowed to less than US$2/bbl at one stage this week, after starting the month at more than a US$4/bbl discount.

Inventories continue to point towards a tightening of the refined products market in Europe. The latest data from Insights Global show that gasoil inventories in the ARA region fell by 31kt over the week to 1.55kt, leaving inventories at multi-year lows. However, the big move over the week was in European gasoline inventories. Gasoline stocks in ARA fell by 342kt to 1.05mt. This decline over the week has seen gasoline inventories fall from more than a 5-year high to just below the 5-year average. Singapore also saw a further tightening in light distillate stocks over the week, with inventory levels declining by 815Mbbls to 13.74MMbbls, leaving them hovering just above the 5-year average. Clearly, the tightness that we are seeing in the US gasoline market is spreading into other regions. And given that the driving season is still ahead of us, we would expect to see further declines in inventories, which should prove supportive for gasoline prices over the summer.

European gas prices came under pressure yesterday. TTF fell by more than 3.7%, which saw the market settling at its lowest levels since the start of the war. European gas storage continues to improve due to strong LNG inflows. Storage in Europe is almost 41% full at the moment compared to a 5-year average of around 44% for this stage of the year. The gap between current inventories and the 5-year average continues to narrow. Assuming we go through injection season with no significant disruption to Russian gas flows, Europe should enter the next heating season with a comfortable inventory. However, this is a big assumption, and the risk of disruption is likely to continue to keep the market trading at historically high levels.

US natural gas prices also came under pressure yesterday, selling off almost 2.7%. Weekly storage data shows that US gas storage increased by 89Bcf over the week, which was slightly higher than the 5-year average of 87Bcf.

Agriculture

The latest data from the Indian Sugar Mills Association shows that sugar production in India has increased to around 34.9mt so far this season. The association reported that around 116 sugar mills were still operating as of 15 May. ISMA maintained its export estimate at around 9mt for the current year, with around 8.5mt of export sales already made. The food ministry reported that sugar exports have increased to around 7.5mt as of 18th May, already surpassing last year's 7.2mt of exports. The ministry estimates that around 3.5mt of sugar equivalent would be diverted to ethanol this year and expects this to grow with targets of around 6mt by 2025.

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