

The Commodities Feed: Biden confirms stock release

Your daily roundup of commodities news and ING views



Energy

President Biden confirmed that the US will release 1MMbbls/d of crude oil over a 6 month period from the US Strategic Petroleum Reserve (SPR), which will work out to about 180MMbbls. This would be the largest stock release in the history of the SPR. The US administration hopes that this will be enough to tide the market over until we see stronger US production growth later this year. It also appears that this release will be part of larger coordinated release with other countries. President Biden has said that we could see 30-50MMbbls released by other countries. The IEA will be meeting later today. Whilst the volume is significant and it has put some immediate downward pressure on prices, the issue is that this is still a short term fix. Instead the market needs to see solutions for the medium to longer term. In addition, we still see it falling short of offsetting the losses we are seeing from Russia due to self-sanctioning. As a result, we expect that the SPR release will likely cap prices, rather than provide significant downside in the medium term.

There were no surprises from OPEC+ yesterday. The group had yet another very quick meeting, where it was agreed that production would be increased by 432Mbbls/d in May. This slight increase from 400Mbbls/d in previous months is due to the change in the baselines used for several members. The group continues to hold the view that the current strength and volatility in the market is due to geopolitical concerns rather than fundamentals. The group's next meeting is scheduled for the 5th of May.

The European gas market saw another day of volatility, with TTF prices trading within an almost EUR20/MWh range. The catalyst continues to be demands from Russia to be paid in rubles from countries which it classes as 'unfriendly'. President Putin has threatened to cut gas supplies to those who do not agree to the new payment terms by 1 April. Buyers will need to open accounts in Gazprom bank (which is not under sanctions) where USD and euros can be exchanged for rubles. The uncertainty over how this plays out means that prices will likely remain extremely volatile.

Metals

The physical metals market in Shanghai has become stagnant as stricter Covid measures cause disruptions to business operations. Shanghai bonded warehouses are also closed, with very few spot inquiries. LME copper closed marginally positive at US\$10,375/t, gaining 7% year-to-date. The red metal has held firm despite a weaker PMI reading from China as the country is battling with Covid. Meanwhile, LME warehouses continue to see copper inflows taking total stocks to 91.4k, the highest in two-months. The rise in copper inventories is primarily due to recent market dislocations between London and Shanghai insofar as traders sending metals from China bonded areas to the LME market to take advantage of higher prices than in Shanghai.

Aluminium slipped yesterday in London to close the quarter at US\$3,491/tonne. The metal has risen by more than 24% year-to-date and ranking the second-best performer among LME base metals after nickel. Aluminium inventories have declined to 647kt, the lowest since 2005, leaving a thinner buffer for the market to risk further supply shocks. The elevated aluminium smelting margins have sparked interest in bringing additional capacity. Yesterday, Middle East producers, Alba and EGA were reported to have signed an MOU to look for capacity expansions at the former smelter. In addition, Rio Tinto has started a new aluminium recycling furnace at its Laterriere plant in Canada. The additional capacity of 22kt comes online when global aluminium supply concerns have sent prices and associated premiums to peak levels.

Zinc cash/3M spread spiked to US\$59/t (backwardation) yesterday, the deepest in almost four-months. The galvanising metal has gained 18% year-to-date, mainly being buttressed by supply losses in Europe as smelters struggle with high energy prices. Nyrstar's Aubry zinc operations in northern France appear set to resume soon. There is still plenty of uncertainty amid elevated power prices and talks over the payment of Russian gas supplies.

Agriculture

CBOT corn traded firm yesterday whilst CBOT soybean weakened further as the prospective plantings report from the USDA showed that corn to soybean switching could be more than the market expectations due to surging costs, supply shortages of fertilizers and lower profitability. The USDA estimated that corn acreage in the US could drop sharply to 89.5m acres compared to 93.4m acres in 2021/22. The market was expecting acreage to be around 92m acres. On the other hand, estimates for soybean acreage increased to a record high of 91m acres, compared to around 87.2m acres over the preceding year; the market was looking for a number closer to 88.8m acres. Fertilizer costs for soybean are relatively small compared to corn on an acreage basis - soybeans do not require nitrogen fertilizer which is facing relative scarcity these days. The agency estimated wheat acreage to increase from 46.7m acres to 47.4m acres, largely in line with market expectations of around 47.8m acres. The USDA estimated total acreage in the US to be largely flat at around 317.4m acres in 2022/23, compared to 317.2m acres in 2021/22.

Over the recent weeks, corn has outperformed soybean with the soy/corn price ratio falling to 2.16 currently compared to a high of around 2.5 in early February, or an average of around 2.26 over the first two weeks of March when the USDA survey was conducted. Further strength in corn prices over the next few weeks could still see some of the acreage returning to corn as planting is yet to start in the majority of states.

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