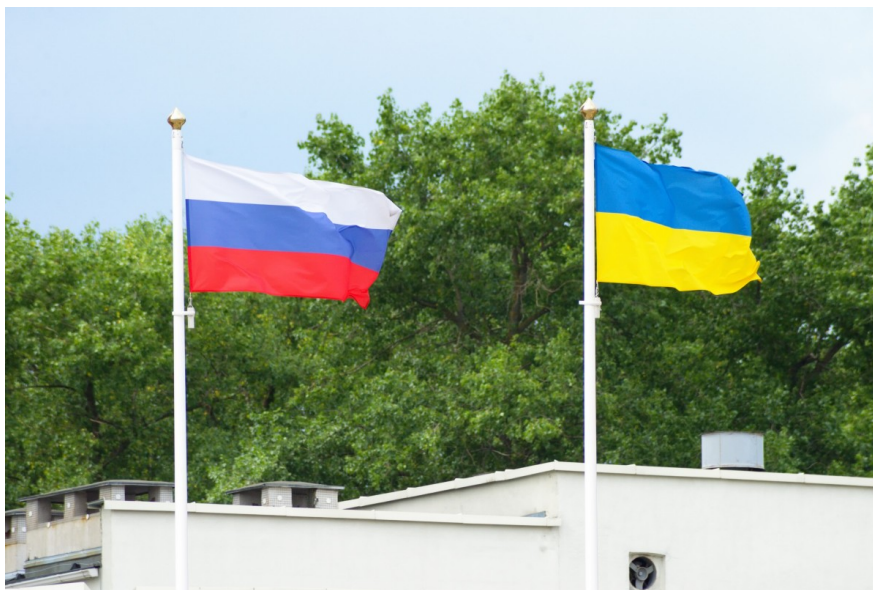


The Commodities Feed: Brent breaks above \$100/bbl



Russia and Ukraine flags

Energy

The oil price finally broke above the US\$100/bbl level yesterday, trading to levels last seen in 2014. This follows an escalation in the Russia-Ukraine situation, with Russia launching a special military operation into Ukraine. The move in the oil market would have reflected concerns over how Western nations would react to this latest development. However, following the latest round of sanctions which do not target oil and gas exports, the market has given back a lot of the initial gains. But the uncertainty and the risk of further sanctions is clearly turning buyers away from committing to Russian oil and this is reflected in the continued weakness in the Urals differential. There are also reports that some buyers are struggling to open letters of credit with Western banks for Russian oil. That said, there will be some buyers who would be looking to take advantage of picking up heavily discounted Urals.

The higher price environment we are seeing also suggests that we could see the US taking further action to increase supply, potentially with a further release of oil from the Strategic Petroleum Reserve. However, as we saw following the last SPR release announcement, these tend to offer only a short term solution. The US will also likely pile on the pressure for OPEC to increase output more aggressively. These calls were largely ignored last time around, and it is difficult to see a shift in the thinking of OPEC. However, we should get more clarity about this next week as OPEC+ meet on the 2nd of March.

The move in oil markets yesterday was dwarfed by the strength seen in the European gas market. TTF rallied by more than 50% to settle at EUR134/MWh. Clearly there is more concern over what retaliation we could see from Russia due to sanctions. The main risk being that we see Russia further reducing gas flows to Europe. The rally in the market wasn't isolated to the front end of the curve, with forward prices all the way through until March 2023 now trading above EUR120/MWh.

Agriculture

The agricultural complex, particularly wheat and corn, rallied yesterday on the back of the Russia-Ukraine developments, as both countries contribute significantly to global supply. USDA data shows that Russia and Ukraine together supplied around 56mt of wheat in 2020/21, which equates to around 27.6% of global exports. Both countries also exported around 27.9mt of corn in 2020/21, around 15.4% of global exports for the year. Ukraine suspended some operations at its shipping ports in the Black Sea region yesterday which could weigh on corn and wheat exports in the near term.

In its initial annual outlook, the USDA estimates grains acreage to increase marginally, from 227.3m acres in 2021/22 to 228m acres in 2022/23. The agency estimates wheat and soybean acreage to increase from 46.7m acres to 48m acres and from 87.2m acres to 88m acres respectively. On the other hand, the USDA sees corn acreage falling to 92m acres in 2022/23, compared to 93.4m acres in the preceding year. The USDA estimates domestic wheat production to increase 18% YoY to 1,940m bushels in 2022/23 on account of bigger acreage and better yields. Higher production is likely to help exports to increase from 810m bushels to 850m bushels, whilst ending stocks could also increase from 648m bushels to 731m bushels. For soybean, the agency estimates production to increase marginally from 4.44b bushels to 4.49b bushels, leading to higher exports of around 2.15b bushels.

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