The Commodities Feed: China Covid concerns

Your daily roundup of commodities news and ING views

Energy

Oil came under further pressure yesterday, with ICE Brent settling more than 5% down on the day, whilst WTI briefly traded below US$100/bbl. Negotiations between Russia and Ukraine appear to be weighing on the market, with hopes that talks lead to some form of de-escalation. Clearly, the oil market will be highly sensitive to any noise around Russia-Ukraine, which means prices will likely remain volatile. On the demand side, the market is also having to assess the potential impact of China's latest Covid outbreak. China is seeing its highest number of daily cases in two years. Shenzhen is under lockdown at the moment, whilst other cities have also introduced tougher restrictions.

Russian Urals crude prices continue to weaken due to self-sanctioning. 100kt of Urals CFR Rotterdam were offered at a record discount of $30.15/bbl to dated brent. In addition, Zarubezhneft was unable to sell 600kt of Urals for 2Q22 loading at a tender. India may step up as a larger buyer of Russian crude given the significant discounts on offer. There are reports that India is looking to set up an INR-RUB mechanism in order to help with trade between the countries amid Western sanctions. At the moment, India imports a fairly insignificant volume of Russian oil.

Turning to Nigeria, Shell declared force majeure on its Bonny exports earlier this month, whilst Eni has taken similar action on its Brass crude following a pipeline blast. According to Bloomberg, shipments of these two grades were planned to average 170Mbbls/d next month. Nigeria has struggled to produce at its agreed levels under the OPEC+ deal. Under the terms of the deal, Nigeria could produce 1.7MMbbls/d, yet they are estimated to have produced just 1.54MMbbls/d.

Metals

Risk-off sentiment dominated markets yesterday amid thin liquidity following the nickel chaos. Aluminium tumbled by more than 4%, as the latest Covid outbreak in China weighs heavily on market sentiment. Lockdowns and tougher restrictions have dampened the demand outlook. The restrictive measures have caused disruptions to logistics for both supply and demand, but it's less clear what the net effect will be. Copper and aluminium inventories have started to decline, but the short-term trend is very uncertain due to restrictions on logistics.

Tsingshan announced that it has reached a deal with a consortium of banks to provide the group with a loan facility to backstop their short position in the nickel market. Meanwhile, Tsingshan will close out their hedge positions in an orderly manner. The deal should provide some respite to Tsingshan, which is facing some hefty margin calls. Nickel trading remained shut on Monday, but the LME did issue a notice late on Monday stating that trading will resume at 8:00 am London time on Wednesday. Although they will introduce some restrictive measures for all base metals trading.

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