The Commodities Feed: China omicron concerns

Your daily roundup of commodity news and ING views

Corona virus and oil rig

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Energy

Brent finished last week up about 5% WoW on the back of mounting supply concerns. However, we have started this week on a weaker footing. Both Brent and WTI are trading lower in the early morning session in Asia. Covid developments in China are not helping sentiment. Tianjin has begun city-wide testing after two local Omicron cases were detected. While we see other countries adapting to live with Covid, China clearly continues to pursue its zero-covid policy. This is a risk to oil demand since China is the largest crude oil importer in the world. We are also approaching Chinese New Year, a time when there is normally plenty of domestic travel, and so any domestic restrictions will weigh on oil consumption.

However, for now, the market is still mostly focusing on supply dynamics. Even with supply, however, we are starting to see an improvement. In Libya, output has reportedly returned to 900Mbbls/d after maintenance work on pipelines. The maintenance work had led to a fall in production of 200Mbbls/d. While in Kazakhstan, clearly there is still plenty of uncertainty and so it will remain a risk to supply. That said, the Tengiz oil field, which initially adjusted production due to logistical issues, is now gradually returning production to normal levels.

The supply concern which is not going to disappear anytime soon is OPEC spare capacity. There are only a handful of members that have the capacity to increase output, whilst others are failing to meet their agreed production levels due to disruptions and lack of investment. This is evident when looking at OPEC production levels for December, where OPEC members within the deal increased output by 150Mbbls/d, against a possible output increase of 250Mbbls/d.

The European natural gas market came under pressure on Friday with TTF falling by around 8.6%. This follows news that the Groningen gas field in the Netherlands may increase output to 7.6bcm in the current gas year, up from an earlier estimate of 3.9bcm. This is on the back of stronger demand as well as a delay in the start-up of a new nitrogen plant in Zuidbroek.

Metals

The first week of trading this year was a mixed bag for base metals. Supply-constrained metals remained outperformers, led by aluminium. Aluminium continues to price in some risk premium stemming from elevated gas and power prices in Europe, as well as the Indonesia coal export ban. However, the aluminium market received some relief on Friday with gas prices falling on the back of news that the Groningen gas field will boost output. The week has also seen a surge in LME aluminium cancelled warrants, while stocks declined by more than 22kt. As for nickel, prices remained firm over the week, underpinned by low inventories and sticky tightness in the class one market. In the class two market, there has been a tug-of-war between weaker Chinese nickel pig iron production and planned cuts at stainless steel mills for maintenance purposes. The net impact of this is not clear in the short term.

Social unrest in Kazakhstan has offered some support to copper and zinc, although there haven't been reports of any meaningful disruptions to supply. Kazakhstan is a sizeable supplier of major metals to China. During the first eleven months of 2021, China imported 765kt of copper concentrate (3.6% of total imports) and 243kt of refined copper (7.6% of total) from Kazakhstan. Imports of zinc concentrate were rather smaller at 46kt, representing only 1.4% of total imports. However, China imported over 195kt of refined zinc from Kazakhstan, almost half of its total imports during the first eleven months.

Last week there was a report that China authorities had urged banks to boost property lending amid default fears, a sign that we may have seen the worst from last year's unprecedented tightening in the sector. However, the effects of this may only be evident post-Chinese New Year, when we come out of a seasonal lull in downstream activities.

Agriculture

Speculators continued to trim their net long position in sugar over the last week as improved supply prospects amid subdued demand weighed on sentiment. CFTC data shows that managed money net longs in No 11 sugar fell by 11,818 lots over the last week to a one year low of 138,139 lots as of last Tuesday. Among grains, speculative bearish bets on CBOT wheat increased by 8,072 lots over the last week on expectations of higher inventory. The managed money position in CBOT corn and soybean saw little change ahead of the USDA's monthly WASDE report.

The USDA is scheduled to release its monthly WASDE report on Wednesday and expectations are that global wheat inventories could be revised higher while soybeans and corn could see downward revisions. Brazil's agricultural agency, CONAB will update its supply estimates on Tuesday with expectations of some downward revisions for both soybean and corn production for

2021/22.

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