

The Commodities Feed: Choppy price action continues

Your daily roundup of commodities news and ING views



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Energy

Whipsawing in the oil market continues, with ICE Brent rebounding yesterday to settle more than 6% up on the day. This strength continued in early morning trading in Asia today, despite the API reporting a large build in US crude oil inventories (although this was more than offset by draws in refined products). However, the market has turned negative as the morning has progressed. There are a couple of catalysts for yesterday's move higher. Firstly, there has been some easing in Covid-related restrictions in Shanghai. But more importantly, there were comments from Putin that talks with Ukraine have hit a dead-end. This is sad to hear from a humanitarian point of view, whilst it also raises further concerns over how the Russian oil supply will evolve in future. Clearly, the longer this lasts, the more pressure on EU members to act, and having targeted coal in the last round of sanctions, oil could very well be included in the next round.

OPEC released its latest monthly market report yesterday, in which there were downward revisions in both global oil demand as well as non-OPEC oil supply. OPEC revised down 2022 global oil demand growth by 480Mbbbls/d to 3.67MMbbbls/d, which would leave total oil demand at 100.5MMbbbls/d in 2022. The revision lower was due to expectations of lower economic growth, given the ongoing war as well as the surge in Covid cases in China. Non-OPEC supply growth estimates were lowered by 320Mbbbls/d to 2.7MMbbbls/d in 2022. This was driven by expectations for

Russian supply growth to be 531Mbbbls/d lower than previous forecasts, although this was partly offset by an increase of 261Mbbbls/d in US supply growth forecasts. OPEC production numbers for March also disappointed, with the group only managing to increase output by 57Mbbbls/d month-on-month to 28.56MMbbbls/d. Saudi Arabia, Kuwait and the UAE led gains, increasing output by 54Mbbbls/d, 25Mbbbls/d and 23Mbbbls/d respectively. However, a large part of these increases was offset by declines from Libya and Nigeria, where supply decreased by 37Mbbbls/d and 24Mbbbls/d respectively. Production amongst the OPEC-10 (those OPEC members part of the OPEC+ deal) totalled 24.24MMbbbls/d in March, which was 822Mbbbls/d below where these members could be producing under the agreement.

The EIA's Short Term Energy Outlook saw some minor revisions to their US oil supply forecasts for the remainder of this year and 2023. The EIA now expects US crude output to average 12.01MMbbbls/d this year, compared to a previous estimate of 12.03MMbbbls/d. Next year's output was revised down from last month's estimate of 12.99MMbbbls/d to 12.95MMbbbls/d. However, these forecasts are still well above pre-war output expectations.

The latest trade data from China shows that crude oil imports in March averaged 10.10MMbbbls/d. Whilst this is up from 9.51MMbbbls/d in February, it is still down around 14% year-on-year. Given the Covid-related lockdowns that we have seen across parts of China, imports in the months ahead are likely to come under some pressure.

Metals

The base metals complex recovered from Monday's sell-off as sentiment improved after signs of an easing of the Shanghai lockdown and fresh bids from physical buyers amid a recent price correction. However, most of the momentum was not seen until after a higher US CPI print, which boosted inflation-linked bids. Aluminium joined the recovery, not deterred by the 5kt increase in the LME on-warrant inventory, which has reversed the downward trend for the first time since 25 February. Although total inventories are still near a 16-year low.

China's total March auto sales plunged by 11.7% YoY, according to the latest data from the China Association of Automobile Manufacturers. Nevertheless, sales of new energy vehicles (NEV) stand out, surging by 117% YoY (or 42% MoM). Total sales surpassed one million units in 1Q22, up 139% YoY. The strong sales number in March implies that copper usage in NEV doubled from the same period of last year, and we estimate that annualised copper usage could hit 440kt for the full year. However, the recent Covid outbreak forced Tesla to shut down its factory in Shanghai on 28 March, as did some other carmakers. This implies that the impact on both production and sales may only be reflected in the April numbers. As for batteries, ternary battery installations rose by 55% YoY during the first quarter, though this is modest in comparison to the 218% YoY growth in LFP. Strong battery consumption is aligned with the strong demand seen for battery cathode materials. For example, nickel sulphate prices in China's pot market have soared 30% year to date amid a tight market.

Agriculture

CBOT wheat traded firm yesterday and settled with gains of around 2% at US\$11.04/bu, whilst European milling wheat gained more than 5% to settle at €399/t after Egypt invited tenders for European wheat to be shipped during 20-31 May or for delivery over the first half of June 2022. Previously, Egypt had announced a halt in new tenders until mid-May on account of high wheat prices and also to support domestic wheat producers as harvesting season approaches. However,

dwindling stockpiles have probably prompted the country to restart purchases earlier than anticipated.

The US has allowed E15 fuel (15% ethanol) sales for the current summer season due to high domestic gasoline prices. The US usually doesn't allow E15 sales over the summer months due to smog issues; however high fuel prices this year have pushed the administration to take this action.

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