

The Commodities Feed: Commodities soar on Russian supply uncertainty

Your daily roundup of commodity news and ING views



Energy

It was another strong day for the oil market yesterday. Brent settled more than 7% higher on the day and this strength has continued in early morning trading today. Fear that sanctions against Russia will eventually include energy exports is driving prices higher. The threat of oil sanctions also continues to weigh on interest in Russian oil. The Urals differential weakened even further yesterday, hitting new record lows and reflecting the lack of appetite for Russian oil at the moment. In addition, some recent sale tenders for Russian oil have attracted no bids. The difficulty is getting a good idea of how much of an impact the current situation will have on Russian oil exports. For now, we are assuming a 1MMbbl/d hit, although this number could look quite conservative fairly quickly.

In an attempt to calm the market, the IEA held an emergency meeting yesterday, where a coordinated stock release of 60MMbbls was agreed. This is only the fourth time in history that we have seen an IEA coordinated release, with the last being back in 2011. However, the announcement of the release has not eased concerns evident by the lack of a downward correction in prices.

OPEC+ will meet today and the general expectation is that the group will stick to its plan of increasing output by 400Mbbls/d in April. In recent days some members have said that the current price strength reflects geopolitical risks rather than supply/demand imbalances. However, if there continues to be a lack of interest in Russian oil, that argument will not hold for very long.

European gas prices also saw significant strength yesterday, with TTF settling more than 23% up on the day. Given Europe's dependency on Russian gas, the market is much more nervous about Russia/Ukraine developments and what that could potentially mean for gas flows into Europe.

Finally, the EU carbon market fell by more than 16% yesterday to EUR68.53/t- the lowest level seen since November. This weakness likely reflects some concern that higher energy prices will lead to some industrials reducing operating rates, and so reduce the amount of carbon allowances needed. In addition, the General Confederation of Italian Industry yesterday called for the EU ETS to be temporarily suspended, saying that speculation was driving up carbon prices. In the current high energy price environment, there could be further such calls in order to help ease rising costs for businesses.

Metals

There are more signs that the geopolitical risk has morphed into supply disruptions after Maersk halted bookings from Russia. Aluminium and nickel continue to surge with increasing signs that Russian metal flows are being increasingly restricted due to transportation issues or self-sanctions. The metals complex also received an additional boost from China's latest stronger-than-expected manufacturing PMI numbers, which rose despite rising Covid infections and the Lunar New Year break last month. Copper and zinc also joined the rally yesterday. LME 3M copper returned to US\$10,000/tonne, and zinc touched US\$3,807/tonne amid rising fears of potential disruptions to logistics on other non-Russian flows. As for steel, sales from Russian steelmaker Severstal PJSC to Europe (its biggest export market) will be suspended, as the owner Alexei Mordashov was sanctioned by the European Union. The company exports around 3mt of steel annually to Europe, and the move is expected to further tighten the European steel market.

However, iron ore continued to rally, defying the recent intensive crackdown measures by the Chinese NDRC. There are signs of rising utilisation rates from mills in northern China post the Winter Olympics. The market has also started to price in some risk premium on the supply side, as reports are showing that a cyclone is headed towards Pilbara, which may hit the area on Thursday. Meanwhile, the ongoing conflict between Russia-Ukraine also puts at risk around 44mt of iron ore supply from Ukraine.

Agriculture

The supply risk premium for grains continues to skyrocket with CBOT corn and wheat rising by more than 5% yesterday, whilst CBOT soybeans also increased by more than 3%. Global buyers of grains have been increasingly turning to the US, Europe or South America to secure supplies in the immediate term, given the ongoing conflict. Moreover, the demand for stockpiling has also increased due to the current uncertainty, as prolonged military action in the region could create long-term supply imbalances.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

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