The Commodities Feed: De-escalation hopes see commodities trade lower

Your daily roundup of commodities news and ING views

Tank farm for storage of petroleum products in Volgograd, Russia

Energy

The oil market came under pressure yesterday following Russia's announcement that it would scale back its military operation around Kyiv and Chernihiv. Brent at one stage fell as low as \$104.84/bbl, whilst WTI traded below the US\$100/bbl level for the first time since mid-March. However, there is some scepticism around Russia’s announcement which is why we saw the market recoup some of the initial losses later in the trading session. Brent managed to settle a little above US\$110/bbl for the day. Given the level of uncertainty in the market at the moment combined with the tight supply/demand balance, we expect that oil prices will remain extremely volatile. Falling market liquidity will also add further volatility. Aggregate open interest in ICE Brent is at its lowest level since 2015. The 10-day average bid-offer spread on the ICE Brent front-month contract has also been at its widest level this month since the Covid lockdown shock in April 2020.

There are further signs that Russia is struggling to find demand for its crude oil. Reuters reports that Russian pipeline operator, Transneft, is limiting oil intake into its network due to storage levels increasing. Reduced outlets for Russian oil will eventually lead to oil producers having to reduce output. Bloomberg reports that Russian oil production between 16-27 March fell below 11MMbbls/d for the first time since the start of the year.

The latest data from the API shows that US inventories saw declines across the board. US crude oil inventories are reported to have fallen by 3MMbbls, whilst stocks at Cushing declined by 1.06MMbbls over the week. The US refined product market also saw further tightening. Gasoline and distillates inventories decreased by 1.36MMbbls and 215Mbbls respectively. The more widely followed EIA numbers will be released later today.

Metals

Aluminium saw some of its risk premium evaporate after reports that Moscow would reduce military operations near Kyiv. LME 3M aluminium tumbled more than 5% at one stage and the selloff was likely further exacerbated by systematic investors and relatively thin market liquidity. Any de-escalation could help ease the nervousness around increasing supply disruptions. However, it remains to be seen if and when those existing sanctions will be lifted. Zinc was also caught in aluminium's slipstream. 3M zinc prices declined by around 1.3% in London as hopes for de-escalation in the war could reduce the risk of smelter disruptions in Europe.

The latest estimates from Japan's Sumitomo Metal Mining Co. show that nickel demand in batteries is set to rise by about a quarter in 2022 thanks to the ongoing global shift to EVs. Demand from the batteries sector is estimated to stand at 410kt this year, up from 330kt last year. Total nickel supply is expected to rise by 11% YoY to 2.93mt, whilst demand is estimated to increase by 8.4% YoY to 3mt. The global supply deficit for nickel is expected to shrink to 68kt in 2022 due to the rising output of nickel pig iron in Indonesia. This compares to a deficit of 135kt last year.

Agriculture

CBOT wheat slipped by more than 4% yesterday to settle at US$10.14/bu as Russia-Ukraine discussions resulted in some de-escalation. CBOT corn also settled down by almost 3% on the back of optimism over peace talks. Wheat has already been under pressure this week on reports that Ukraine is planning to ease restrictions on wheat exports next month if spring sowing makes decent progress and domestic supplies appear to be sufficient. Ukraine imposed restrictions on wheat exports earlier in the month to keep the domestic market well supplied.

Weekly data from the European Commission shows that soft wheat shipments from the EU slowed to just 100kt last week compared to around 440kt at this point in the season last year. The EU's soft wheat shipments are down around 3% YoY to 19.9mt so far this season.

Looking ahead, the USDA is scheduled to release its Prospective Plantings report for US grains on Thursday. Expectations are that 2022 acreage could increase for wheat and soybeans at the cost of corn. The market estimates that wheat acreage could increase from 46.7m acres to 47.8m acres in 2022/23, whilst soybean acreage could grow from 87.2m acres to 88.8m acres. On the other hand, corn acreage may fall from 93.4m acres to 92m acres. High fertilizer costs are expected to weigh on corn acreage.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Disclaimer