

The Commodities Feed: Demand fears grow with Omicron variant

Your daily roundup of commodity news and ING views



Energy

The oil market ended last week on a negative note. ICE Brent settled more than 11.5% lower on Friday, closing at its lowest level since September. The front-month contract plunged below the 100-day moving average and all the way towards the 200-day moving average. Concern over the latest Covid variant and the resulting travel restrictions have weighed heavily on crude oil. A number of countries have imposed restrictions on flights from parts of Southern Africa, while Israel has shut its borders completely. Given that these restrictions will hit air travel the most at the moment, it is no surprise that jet fuel cracks also came under significant pressure. The jet crack in NW Europe traded below US\$8/bbl, whilst the jet diff fell by around 25% to US\$26/t. Given the lack of information on the latest variant, one could probably question the scale of Friday's selloff and whether it is really justified. The market seems to be coming to that realization in early morning trading today, with a relief rally underway. Initial reports suggest that symptoms from the Omicron variant are mild, but there are still question marks around how effective current vaccines will be against this latest variant.

The latest Covid developments will make for an interesting week. OPEC+ countries are set to meet on Thursday and there was already uncertainty over what the group may do, following the

coordinated SPR release from key consumers last week. However, with the potential demand hit, we believe the group could take a pause in its current supply increases. This would be consistent with the cautious approach OPEC+ has taken since the initial outbreak of Covid-19. The group already agreed at its last meeting to increase output by 400Mbbbls/d in December, so any decision made this week will likely be for January production levels. There will be some pre-meetings (Joint Ministerial Monitoring Committee) ahead of the official gathering on Thursday, so expect growing noise between now and then.

Agriculture

Despite the wider sell-off in the broader financial and commodity market on Friday, grains were relatively stable with corn settling higher on the day, while soybeans and wheat finished the day with mild losses. Concerns over tight supplies continue to be supportive for grains, even as the threat of the new Covid variant weighs on demand prospects. The USDA's weekly export sales report shows that demand for US grains (soybean, corn and wheat) was healthy over the last reporting week. The agency reported that US soybean export sales increased to 1.57mt for the week ending 18 November, compared to 1.37mt the week before and only 768kt at the same stage last year. US corn export sales also increased to 1.52mt compared to 1.04mt a week ago, although remained marginally below the 1.67mt of export sales at the same stage last season.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.