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 400Mbbls/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.

Agriculure

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.

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