

The Commodities Feed: EU announces Russian oil ban proposal

Your daily roundup of commodities news and ING views



The EU has not yet put sanctions on Russian oil and gas imports

Energy

ICE Brent settled almost 5% higher yesterday, taking prices back above US\$110/bbl. This strength follows an official announcement from the European Commission on a proposal to ban Russian oil and refined product imports. The Commission is proposing that Russian oil imports are phased out over a 6 month period, whilst phasing out Russian refined product imports by year-end. Member countries could potentially come to a decision in the coming days, although there could be some pushback from countries that are heavily reliant on Russian supply, specifically Hungary and Slovakia. As we mentioned yesterday, there are reports that exemptions could be provided to some countries in the CEE which would find it more difficult to stop Russian oil imports within a 6 month period.

The EU imports a significant amount of crude oil from Russia. In 2021 imports totalled around 2.3MMbbls/d, which is around 26% of their total crude oil imports. The 6-month wind-down period provides time for an orderly change in trade flows. However, there are risks. There is the potential for Russia to halt oil flows to the EU before the wind-down period comes to an end, which would leave the EU scrambling to quickly find other supply. In addition, there is the risk of secondary sanctions from the US on Russian oil, which would make it difficult for any country to buy Russian

oil. Given the tightness in the supply and demand balance, the market would not be able to cope with almost a full loss in Russian oil supply, and so if we were to see this, we would see significantly higher prices. For now, we do not think secondary sanctions are likely, so this should allow the likes of India and China to increase their Russian oil purchases, freeing up other sources of supply for the EU.

OPEC+ members will meet today to discuss their output policy for June. Heading into the meeting, expectations are that the group will stick to the deal and increase output by 432Mbbls/d over the month. Whilst they may agree to this increase, in practice, the group are unlikely to hit this target. For several months now, OPEC+ members have fallen short of their agreed output levels, with disruptions and a lack of investment in fields weighing on output. The next meeting should be more interesting, given that OPEC+ should have more clarity on what the EU decides in terms of Russian oil imports. Don't expect them to ramp up output though. Spare capacity is limited to just a handful of members, and Russia is part of the OPEC+ pact and so will have an influence on what the group decides. It is hard to see Russia supporting a supply increase when demand for their oil is under pressure.

Metals

Most base metals finished the day higher, with a weaker USD and dovish Fed outcome providing a boost to the complex. However, there is still plenty of uncertainty lurking due to Covid related lockdowns in China.

The LME announced yesterday that it had suspended the warranting of Russian produced or exported lead in any of its warehouses, citing an EU regulation on 8 April. The move is rather symbolic, as Russia is not a major lead exporter, and there are currently no Russian lead warrants in the LME system, as the exchange said.

SGX iron ore slipped due to the Covid situation in China, with lockdowns widening and persisting for longer. A slew of economic data, including PMIs and property sales, have reinforced the demand destruction and bleak near-term outlook. Beijing has been vocal in supporting the economy to achieve its growth target. However, it is difficult to do this without bringing the virus under control. Earlier, Bloomberg reported that blast furnace operating rates in Tangshan (steelmaking hub of China) last week fell to their lowest levels since mid-March, primarily due to Covid-19 lockdown restrictions in the city.

Agriculture

CBOT wheat traded firm yesterday after reports emerged that India could plan to limit exports as domestic supplies have been hit by the ongoing heatwave. India's food ministry has revised wheat production estimates down to 105mt for the marketing year 2021/22 which ends in June 2022 compared to its earlier estimate of 111.3mt. The early onset of the summer season and record high temperatures in several parts of the country have been weighing on crop productivity. Since the start of the Russia-Ukraine military conflict, India was one of the few countries where the USDA was expecting wheat supplies to increase to help fill the supply gap. Weaker production and export numbers from India could tighten the USDA's wheat balance sheet significantly over the coming months.

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