

The Commodities Feed: EU ban on Russian oil imminent

Your daily roundup of commodities news and ING views



Tank farm for storage of petroleum products in Volgograd, Russia

Energy

An EU embargo on Russian oil is looking imminent, with reports that EU members could decide as soon as this week. However, as we saw with the coal ban, it is looking as though Russian oil will be phased out, rather than an immediate ban. The WSJ reports that the proposal calls for a 6 month wind down period for Russian crude oil imports and for refined product exports to come to an end by the end of this year. There will be challenges with this, as already Hungary and Slovakia appear to be against banning Russian oil, given their dependence on it. Therefore, there is the possibility that some countries could be provided with exemptions or a longer wind-down period. The risk is if a couple of countries are allowed to continue importing Russian oil beyond the 6 month cut-off, others may push for it too, which would dampen the impact of the ban. EU members will discuss the proposal today.

The potential for phasing out Russian oil, rather than an immediate ban, will give European buyers time to find alternatives, which would allow trade flows to adjust in a more orderly manner. How much of an impact it has on price will depend on how other countries respond. If we see the likes of India and China increasing their share of Russian oil imports, and freeing up other supply for the EU, the impact should be more limited. However, if these countries are reluctant to increase their

share significantly, this would leave the EU in a more vulnerable state, and would be more bullish for prices.

What could be more challenging for the EU is the banning of refined products, particularly middle distillates. The middle distillate market is extremely tight in most regions around the globe. Risks around Russian supply, lower Chinese exports, recovering demand following Covid, and limited ability of refiners to respond has meant that inventories in the US, Europe and Asia are at multi-year lows. In fact on the US East Coast, distillate fuel oil inventories are at their lowest levels since 1996, which left the market vulnerable to a squeeze last week ahead of the NYMEX ULSD May contract expiry.

Metals

Risk sentiment deteriorated after the London market re-opened on Tuesday. Fears about more aggressive tightening at the upcoming Fed meeting saw gold slide, while base metals were heavily sold off amid rising US Treasury yields and a firmer dollar. In addition, China's April PMI release saw a sharp contraction which has likely reinforced demand worries around the world's largest consumer. US April manufacturing PMI numbers also missed expectations, raising further concerns over demand.

A deteriorating Covid situation is one of the key headwinds weighing on metals. After Shanghai entered lockdown at the end of March and Beijing fell into partial lockdown last month, authorities in Zhengzhou city, the capital of Henan province with over 10 million population, announced that the city will begin mass-scale testing and introduce strict restrictions on activities.

LME 3m aluminium fell by almost 3.75% in the afternoon sessions amid a sudden inventory arrival in the exchange's Asian warehouses, reversing its downward trend. On-warrant inventories jumped by more than 12kt, with most seen in Malaysia. Meanwhile, copper stocks continued with their moderate upward trend, which saw 300t arrive yesterday in South Korea.

Agriculture

CBOT grains largely traded mixed yesterday as traders await the Fed's interest rate decision later today. Supply-side constraints continue to be supportive for grains. Demand also faces major headwinds due to Covid uncertainty in China and the ongoing interest rate hike cycle. On the supply side, corn and soybean sowing in the US continues to progress at a very slow pace due to unfavourable weather, which may have an impact on crop development and production. Meanwhile, soybean exports from Brazil dropped 49% YoY to 8.3mt in April (down 33% MoM) pointing to tight supplies from the South American country. Brazilian soybean supplies are likely to dwindle further over the coming months, as April is usually the peak for Brazilian soybean exports.

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