

# The Commodities Feed: EU no closer to a Russian oil ban

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## Energy

The oil market continues to trade in a large intra-day range and is struggling to find direction during this period of uncertainty for both supply and demand. Yesterday, the market took comfort in an easing of Covid cases in some parts of Shanghai. However, China still appears unwilling to drop its zero-covid policy, which will continue to be a risk for demand.

There has been little progress in the EU's proposed oil embargo against Russia. The European Commission and other member countries have failed to convince the Hungarian government to back the ban. Instead, the Hungarians have said that they would only support the ban if there is an exemption for Russian pipeline oil flows. If we were to see this, it would significantly water down the impact of the ban, given that the Druzhba pipeline flows amount to somewhere in the region of 1MMbbls/d, which is a significant portion of the roughly 2.3MMbbls/d of crude oil that the EU imported from Russia in 2021. Given the large volumes of Russian pipeline oil coming to the EU, it is hard to see an exemption on pipeline flows as an acceptable compromise. The longer these talks drag on, the more pressure there could be on EU member countries to impose a ban on a national level, rather than waiting for all EU members to finally come to an agreement.

The EIA's weekly oil report showed that US commercial crude oil inventories increased by 8.49MMbbls over the last week. However, SPR inventories declined by 6.99MMbbls, which means

that total US crude oil inventories increased by a more modest 1.5MMbbls. Crude oil exports declined by 695Mbbls/d over the period, helping the build seen in inventories. However, the refined products market continues to tighten up. Despite refiners increasing operating rates over the week, gasoline inventories declined by 3.61MMbbls, which saw stocks falling below the 5-year range. Tighter gasoline stocks as we move into the driving season should be supportive of gasoline cracks. Distillate fuel oil inventories also declined, although fell by a more modest 913Mbbls. However, total US distillate stocks are at their lowest levels since 2005, whilst if we look to the US East Coast, inventories are at their lowest levels since at least 1990. The continued tightening in middle distillates and the risk around Russian gasoil exports suggest that middle distillate cracks could see some more strength.

Finally, OPEC and the IEA will release their monthly oil market reports today, which will include their latest outlook on the market. It will be interesting to see what supply revisions both agencies have made, if any, given the EU's proposed ban on Russian oil. In addition, there is the potential for further demand downgrades, particularly from OPEC, given that they have made much more modest downward revisions up until now.

## Metals

Industrial metals rebounded in yesterday's Asian session, and this strength continued into London with most base metals closing in positive territory. The move higher was likely sparked by hopes that China would launch a large infrastructure stimulus package by issuing special bonds. However, officials have not confirmed this. There are also signs of Covid cases easing in some districts of Shanghai, as local authorities have been trying to control the virus from spreading at the community level.

Zinc led the rebound in base metals, with the 3M price touching an intraday high of US\$3707/t and closing \$71 higher, as the galvanising metal is most exposed to infrastructure stimulus. Despite market sentiment deteriorating due to the near-term demand outlook, the refined market tightness has not yet eased. In addition, LME reportable stocks have continued to fall due to persistent tightness in the market.

The Chinese onshore market received a boost after reports that the US President may cancel some tariffs on Chinese imports, including some stainless steel products. However, the total export volume related to the potential tariff removal is insignificant according to MySteel; therefore, the impact on exports would be limited.

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