The Commodities Feed: EU still working towards Russian oil ban

Your daily roundup of commodities news and ING views

Tank farm for storage of petroleum products in Volgograd, Russia

Energy

Oil finished last week off strongly. ICE Brent settled above US$119/bbl, which took its gains for the week to more than 6%. Tightness in the refined products market continues to prove supportive for crude oil prices, as healthy refinery margins should see refiners maximize their run rates. Last week, there were also reports that the US administration was talking to the domestic industry to see whether they could bring back shut refining capacity in order to help improve refined product supply.

Over the weekend, EU diplomats failed to come to an agreement on the EU's proposed ban on Russian oil ahead of a 2-day summit with EU leaders starting today. There are reports that despite concessions provided to Hungary, which would exclude oil that flows through the Druzhba pipeline from the ban, Hungary is still blocking the agreement. Hungary wants EU funding in order to help them increase pipeline capacity from Croatia and also for refiners to be able to switch to alternative crude. Diplomats are expected to meet ahead of the summit today, however, it's unlikely that members come to an agreement when they meet, given that talks have not progressed enough.

The latest positioning data show that speculators increased their net long positions in ICE Brent by 12,639 lots over the last reporting week, which left them with a net long of 197,072 lots. This is the largest position that speculators have held since early March. However, it is still some distance from the roughly 333k lots they held back in October last year. The move over the week was driven predominantly by fresh longs, with the gross long increasing by 8,831 lots. Given the move that we have seen in the market since last Tuesday, the current net-long position is likely to be even larger.

OPEC+ are set to meet on Thursday to discuss their production policy for July. We continue to expect no change in the group's approach and expect confirmation that they will increase output levels by a little over 400Mbbls/d over the month. However, as we have seen for several months now, it is unlikely that members will produce anywhere near their agreed output levels.

Metals

Base metals rebounded on Friday along with other risk assets. A weaker dollar last week offered a temporary boost to the metals complex. LME nickel jumped over 7% at one stage on Friday, which saw the market hit an intraday high of US$29,100/t (highest since May 9). Total open interest in the LME nickel market dropped to 161,884 contracts on Wednesday last week, the lowest since 2012.

Over the weekend, Shanghai said it would remove 'unreasonable curbs' on businesses and manufacturers from 1 June. The city also unveiled fresh economic support measures. It is set to abolish the so-called whitelist, allowing more businesses to resume from 1 June; however, some doubt that workers will be able to leave their compounds to return to work from this week. Among the 50 policy measures announced by Shanghai officials, the city will cut some purchase taxes, issue more quotas for car plates, and subsidise electric vehicle purchases. These policy measures for Shanghai may provide some relief, but are unlikely to turn around the overall slowdown in demand.

The focus will be on how quickly economic activity improves following the easing of restrictions. More importantly, the scale of stimulus is an important factor to keep an eye on. Major base metal inventories have remained in a downward trajectory in the China onshore market after logistics improved, and are still low compared to historical levels. This suggests that markets have a relatively smaller pile of metal to work with if business returns to normality. However, as market dynamics move back towards a favourable import arb, the scale of import flows remains to be seen.

Agriculture

CBOT corn saw speculators liquidating longs over the last reporting week with a pick-up in US corn plantings. CFTC data shows that money managers reduced their net long position by 48,242 lots over the last week to 291,469 lots. The move was predominantly driven by longs liquidating. Money managers reduced gross longs by 30,976 lots over the week, whilst increasing fresh shorts by 17,266 lots. The speculative net long in CBOT corn has now dropped to the lowest level in more than six months.

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