

The Commodities Feed: Further EU gas cuts

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Energy

The oil market has shrugged off the [EU oil ban](#) to a large extent. While Brent initially surged on the news, the market settled around 1.7% lower on the day. The market has had a month to digest the proposed ban, and so it was likely already priced in. Instead, reports that Russia could be given an exemption from the OPEC+ supply deal seem to have weighed on the market. Given a number of countries have sanctioned Russian oil, it will be a challenge for Russia to increase output in the coming months and hit its output target under the OPEC+ deal. This potentially opens the door for other OPEC+ members to increase output more aggressively. However in reality, given that most members have failed to hit their output targets consistently for several months, it will likely be a struggle for the group as a whole to increase output more aggressively. We could find out tomorrow if there is any truth behind these reports, given that OPEC+ will be holding their monthly meeting then.

Further Gazprom gas supplies will be cut to the EU starting today. As already warned, flows to Denmark will cease today. Danish buyer, Orsted, has a long term contract for about 2bcm per year. In addition, 1.2bcm of supply to Shell will also be cut, which covers some German demand.

Both these buyers refused to agree to Russia's new payment terms. Total Russian supply cuts to the EU now amount to around 23bcm, which is about 15% of the total Russian supply to the EU. These losses should still be manageable given the strong LNG inflows we are seeing. According to Gazprom, they do not expect further supply cuts to any other EU buyers, given that buyers have either paid or have already been informed that flows to them will be stopped.

Agriculture

CBOT wheat tumbled around 6% yesterday as the market factored in the possibility of some Ukrainian agricultural shipments starting through the Black Sea again. Over the past few days, Russia has offered to provide a safe passage for Ukrainian grain cargo in return for some relief from financial sanctions. The details of the Russian proposal remain scant and discussions are still preliminary. However, the market appears to be taking the development optimistically. If allowed, wheat shipments from Ukrainian ports could ease the global supply crunch significantly in the immediate term. However, the possibility of sanction relief for Russia remains remote for now considering that the EU has imposed fresh sanctions on Russian oil just this week; and without sanction relief, Russia has little incentive to help Ukrainian exports.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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