The Commodities Feed: Gasoil tightness

Your daily roundup of commodity news and ING views

Energy

ICE Brent took a breather yesterday, settling back below the US$93/bbl level. Iranian nuclear talks are set to resume today and this comes after the US provided some sanction waivers last week, although none related to oil. However, it still appears as though some progress is being made. We continue to assume that Iranian supply will gradually increase over the course of this year. If this does not occur, it means that the balance sheet will be tighter than we are currently expecting.

The refined products market has been extremely strong recently. ICE gasoil cracks have surged higher, trading to levels last seen back in 2019. The prompt ICE gasoil time spread has also surged in recent weeks, trading to a backwardation as high as US$22.50/t at the end of last week. This deep backwardation highlights the concerns over tightness in the gasoil market at the moment.

According to Insights Global, gasoil stocks in the ARA region in Europe stand at 1.58mt, which is the lowest level seen since 2014. It is a similar story in other regions. Singapore middle distillate stocks have recently fallen to the lowest levels since 2013, whilst in the US, distillate stocks are at least at a 5 -year low for this stage of the year. Demand is clearly robust, but there are also some supply-side issues that have helped to prop up these markets. Lower export quotas from China have tightened the market, although this is a trend that was clear already last year. In Europe, the 400Mbbls/d Pernis refinery, the largest in the region, is undergoing some heavy maintenance at the moment. In addition, over the last week, some oil facilities in Europe have been under cyberattack, which would have disrupted some tanker and barge shipments. Finally, in the US, the winter storm seen in Texas last week has affected some refinery operations. In fact, operations at Marathon's 593Mbbls/d Galveston Bay refinery (the second-largest refinery in the US) are still waiting to restart.

While it is clear that the middle distillate market is tight globally, it is tightest in Europe and this is reflected in the east-west gasoil spread, the premium that Europe trades to Asia, which should support stronger imports into the region.

Metals

LME aluminium led the gains on the first day that Chinese traders returned to the market after the Lunar New Year holidays. The 3M price managed to trade to an intra-day high of US$3,138/tonne, settling up 1.89% on the day. The light metal received another boost from rising supply disruptions to alumina and aluminium in Guangxi, after local authorities put in place strict movement measures due to a Covid outbreak. In Europe, Slovalco announced it would cut production to about 60% due to elevated energy costs and carbon allowances. This now brings total capacity losses in Europe to around 850kt.

Risks are also growing on the copper side after Aurubis, Europe's largest producer, warned that elevated energy prices may start to hurt its bottom line. The smelter said that long-term power contracts and hedges have so far helped to combat high energy costs, but it might be difficult in the coming months if the energy crisis continues. However, copper still seems to be struggling to find direction in the short term.

As for iron ore, prices surged after Chinese onshore traders returned from holiday, while the 62% fines market broke above US$150/tonne in Singapore. Rising prices seem to be driven by optimism around steel demand after Beijing pledged multiple pro-growth measures. The market is doing a good job of ignoring the current reality of weak construction activity and warnings from the NDRC to crackdown on speculation.

Agriculture

CBOT soybeans continued to trade firm on Monday due to healthy demand for US soybeans and amid supply concerns from South America and stronger crude palm oil prices in the Asian market which buoyed sentiment. The USDA reported sales of around 507kt of soybeans to unknown buyers yesterday. US export sales of soybeans have been strong over recent weeks, which has helped to tighten the market. Meanwhile, crude palm oil futures in Asia remained elevated as a poor crop from Malaysia and export curbs from Indonesia created supply shortages in the region. This has been supportive of the demand for other oilseeds including soybeans.

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