The Commodities Feed: Geopolitical risks continue to overshadow markets

Your daily roundup of commodity news and ING views

US Secretary of State Antony Blinken (L) and Russian Foreign Minister Sergei Lavrov (R) attend bilateral talks on soaring tensions over Ukraine in Geneva

Energy

It was a volatile trading session yesterday for the oil markets, with Russian/Ukrainian developments dictating price action, something which is unlikely to change in the near term. Although suggestions that President Putin is willing to continue talks with the US and NATO does offer some comfort, at least in the immediate term. However, the uncertainty means that the oil market will likely continue to price in a fairly large risk premium. The uncertainty around how the situation evolves does not stop there. If the situation was to escalate, it is not clear how the US and EU would react in terms of sanctions and whether the Russian oil industry would be targeted.

The EIA released its latest drilling productivity report yesterday, which showed that US shale output is forecast to rise to 9.71MMbbls/d in March, up from an estimated 8.6MMbbls/d in February. In addition, the number of drilled but uncompleted wells (DUCs) continued to decline over January, falling by 191 to 4,466. This is the lowest DUC inventory seen since January 2014. Since January last year, the total number of DUCs has fallen by 3,295. While the number of wells drilled has increased consistently every month, so have well completions. The low number of DUCs suggests that the US oil industry will not be able to rely on this inventory to sustain production levels - we will need to see a further pick up in drilling activity.

According to Bloomberg reports, the German government is looking at proposals that would require energy companies to ensure that they have adequate gas in storage heading into winter. It is hoped that the proposal would be approved ahead of the summer. As things stand, it looks as though Europe will head into the next heating season with inventories well below average once again. In the current environment, it is difficult to see Russian gas flows returning to normal any time soon, whilst the lack of carry in the forward curve leaves little incentive to store gas. This suggests that gas prices are likely to remain elevated, as well as volatile for yet another winter.

Metals

Aluminium and nickel resumed their upward rally in London as rising fears of supply disruptions from Russia clouded the market outlook. Norilsk Nickel holds around 10% of the global market, whilst Rusal accounts for around 5% of global aluminium supplies, with almost half of its products delivered to the European market. Therefore, any disruptions would tighten markets which are already looking very tight.

Indonesian based PT Huayue, a joint venture set up by Tsingshan Holding Group and China Molybdenum, said it's sending the first cargo of 9,500 tonnes of mixed hydroxide precipitate (MHP) to China after commissioning the first phase of the project last year. It also committed to bring forward the start of the second phase of the project, which should help ease the tightness in feedstocks for battery cathode materials.

LME copper inventories fell by 1.87kt to 72.2kt yesterday, which is the lowest level seen in more than 16 years. Exchange inventories have now declined for 16 consecutive days, raising concern that the copper market could move into a major supply squeeze soon. As a result, the backwardation in the LME cash/3M spread deepened to US$ 64.50/t.

Turning to mine supply, the latest reports suggest that local communities and the government of Peru agreed to a 45-day truce on Sunday to lift blockades that have limited activities at MMG Ltd.'s Las Bambas copper mine. The miner reported that operations at the mine fell to 50% of normal levels in early February, whilst transportation of copper material to ports has been halted since late January.

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