

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.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose

possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.