The Commodities Feed: Geopolitical risks dictate price direction

Your daily roundup of commodity news and ING views

Energy

ICE Brent rallied by almost 2% yesterday, taking it back above US$95/bbl. This follows Russia's plans to recognize Russian separatists in Eastern Ukraine. Russia has said that it also plans to send peacekeeping troops into the separatist regions. The West has responded by saying that it will impose sanctions on these regions. However, given that these will target separatists rather than Russia, it should have no impact on energy flows. As has been the case for several weeks now, Russian developments will be key for determining price direction in the near term.

The spot oil market is still looking tight. The prompt Brent timespread is now trading at a backwardation of US$2.40/bbl- the strongest level that has been seen post-Covid. A combination of robust demand and OPEC+ failing to meet its agreed output levels has kept the market tight. For now, OPEC+ seems reluctant to stray from the current deal and is allowing members with spare capacity to increase output further. Part of this reluctance likely comes from the fact that Iranian nuclear talks appear to be progressing well.

Despite the growing geopolitical risk, European natural gas prices were weaker yesterday. The market appears to be taking comfort in the fact that European gas inventories are moving closer towards the 5-year range. Currently, gas storage is 31% full, which compares to a 5-year low of less than 32%. The 5-year average is still a bit higher at 43%. Whilst concern about supply for this winter is easing, there will still likely be anxiety with respect to inventory levels going into the next heating season, particularly if we see a further decline in Russian flows over the injection season. These concerns are reflected in the TTF forward curve, which is trading above EUR70/MWh all the way through until February 2023.

Metals

The nickel and aluminium markets were stronger yesterday amid lingering geopolitical and supply chain risks. Tightness in the nickel market has led to a continued outflow from exchange warehouses, which has seen the forward curve shift into steeper backwardation. The cash/3M spread saw another explosive spike yesterday, hitting a high of US$555/tonne.

Norsk Hydro has said that it plans to restart disrupted operations at the Albras smelter in early 2Q22, this follows a disruption over the weekend which affected 110ktpa of capacity at the 460ktpa smelter. The International Aluminium Association (IAI) released its primary aluminium production numbers for January yesterday. Global daily average output slipped to 177.8kt in January, compared to 178.5kt in the prior month. Total production in the month fell 4.5% YoY and 0.4% MoM to 5.5mt, which was mainly driven by weaker production from China and Western Europe. However, this was partially offset by stronger numbers from the Gulf region and other Asian countries outside of China.

In the ferrous sector, steel prices received a boost after reports that major banks in China were asked to slash mortgage rates, fanning hopes of rising demand from the property sector. Iron ore in Singapore also jumped above US$140/tonne after being whipsawed last week by a slew of measures from Chinese policymakers trying to talk down prices. The steelmaking material received a further boost after MySteel reported that some mills from Hebei province are scheduled to restart operations.

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