

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.

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 www.ing.com.