

The Commodities Feed: Hungary holds up Russian oil ban

Your daily roundup of commodities news and ING views



Tank farm for storage of petroleum products in Volgograd, Russia

Energy

The oil market saw another strong week last week. ICE Brent managed to settle almost 2.8% higher, leaving it above US\$112/bbl. Support continues to come from the European Union's proposal to place an embargo on Russian oil. However, EU members have still not managed to come to a decision on this ban. Talks are set to continue in the coming days according to reports. The EU had revised the proposal for the ban in order to make it more manageable for those countries that are heavily reliant on Russian oil. Hungary and Slovakia under the latest proposal would have until the end of 2024 to wean themselves off Russian oil, whilst the Czech Republic would have until June 2024. However, this appears to have not been enough for Hungary, which continues to block the planned ban. If these talks drag on, we could see some selling pressure returning to the market (which we appear to already be seeing in early morning trading in Asia). However, in the meantime, it looks as though G-7 countries will move ahead with a ban of their own. Although, three of the seven countries have already put in place a ban on Russian oil or are in the process of phasing it out.

The Saudis released their latest official selling prices for June loadings. And official selling prices (OSPs) for Saudi oil into Asia were cut quite significantly. Arab Light into the region was cut

by US\$4.95/bbl MoM to US\$4.40/bbl over the benchmark. Lockdowns in China have weighed on domestic fuel demand and this is likely to weigh on refinery runs, which in turn would reduce demand for crude oil. OSP's were also lowered for all grades into NW Europe, whilst levels were left unchanged for the US.

There are more signs that we are seeing demand destruction at these higher prices. Nigerian airlines are set to halt all domestic flights due to surging jet fuel prices. Whilst crude oil prices have strengthened significantly in recent months, the move in refined products, particularly middle distillates has stood out even more. With middle distillate stocks lingering at multi-year lows, jet fuel and diesel cracks remain strong. Up until now, refiners have been unable to solve the tightness in the middle distillate market, so it appears as though the market will need to find a solution in the form of demand destruction.

Metals

The deterioration in sentiment saw the industrial metals selloff continue last week. Copper remained below \$10,000 for the second week in a row, and aluminium slipped below US\$3,000/t. The toxic combination of poor macro indicators from major economies and China's Covid strategy has hammered markets. Moreover, a shift in tone out of Beijing on their Covid strategy from a top-level meeting last Thursday further undermined confidence in the Chinese economy.

Zinc headed the selloff last Friday as 3M prices fell more than 8% over the week. The drawdown in LME zinc stocks has stabilised, and there was a moderate rise in on-warrant stocks, confirming that exports from China started to arrive into Asian based warehouses. The stock arrival resulted from a profitable export arb earlier between London and Shanghai, which incentivised zinc outflows to the ex-China market though with a small delay. The combination of low stocks and supply losses in Europe had pushed zinc close to US\$4,500/t during mid-April. However, the market focus appears to have shifted to rising stocks with the expectation that China exports should help ease the supply tightness in the ex-China market.

According to the latest CFTC data, money managers shifted their position in COMEX copper to a net short of 8,813 lots for the first time in two years. As for gold, rising rates saw the speculative net long fall by 16,507 lots, leaving speculators with a net long of 82,936 lots.

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