The Commodities Feed: Iranian hopes

Your daily roundup of commodity news and ING views

Energy

The oil market is under renewed pressure in early morning trading today, with Iranian nuclear talks appearing to be moving in the right direction. The Iranians have said that a deal is near, whilst this week they have also held talks with South Korea to discuss the resumption of trade in oil and products between the countries when and if sanctions are lifted. If we are to see a lifting of sanctions, it would help ease some concerns over the ability of OPEC to increase output. Iran is currently producing at around 2.5MMbbls/d but is estimated to have a capacity of closer to 3.8MMbbls/d. Therefore, over time there is the potential for 1.3MMbbls/d of additional supply to come onto the market. This would only reinforce our current view that oil prices should trend lower through the year. In the short term, the market is tight and as a result more vulnerable to geopolitical risks. This tightness is reflected in the North Sea physical market, as well as the prompt Brent timespread, which is in extreme backwardation.

Sticking to geopolitical risks, clearly the oil market is not convinced that Russian/Ukrainian tensions are behind us. There still appears to be a fairly large risk premium priced into the market, with the West still questioning Russia's claims that it has withdrawn some troops from the Ukrainian border. Russian developments are going to be key for the oil market. The impact of the uncertainty around what could happen between Russia and Ukraine is also reflected in the physical market. Whilst the North Sea market is extremely strong at the moment, the Urals differential has been much weaker, with buyers likely hesitant to commit to Russian crude due to the uncertainty. In recent days Urals have recovered somewhat from their lows.

Yesterday the EIA reported that US commercial crude oil inventories increased by 1.12MMbbls over the last reporting week. When factoring in SPR releases, total US crude oi inventories declined by 1.57MMbbls. Crude oil exports fell by 829Mbbls/d over the week, whilst imports of crude oil decreased by 599Mbbls/d. The impact from the winter storms in Texas was reflected in refinery operations, with refiners decreasing their utilization rates by 2.9 percentage points over the week. This resulted in crude oil inputs at refiners falling by 675Mbbls/d. Lower operating rates at refiners also helped to drive a drawdown in gasoline and distillate fuel oil stocks, with them declining by 1.33MMbbls and 1.55MMbbls respectively. The 4-week average of total product supplied (implied demand) also continues to edge higher, hitting a record 22.11MMbbls/d, which will only help sentiment when it comes to demand. The market will also be getting increasingly concerned about Cushing crude oil inventories continuing to decline. Stocks at the WTI delivery hub fell by 1.9MMbbls over the week to just 25.83MMbbls- the lowest levels seen since 2018. This concern is reflected in the prompt WTI timespread, with it in deep backwardation.

Metals

A weaker dollar and some signs of easing risk on the Russia/Ukraine front saw the return of risk appetite, and metals resumed their rally in London yesterday. Aluminium continued to claw back its lost ground during last Friday's sell-off and led the gains in the LME pack yesterday, with the 3M price standing firm above US$3,200/tonne.

As for nickel, ZhongTsing New Energy, another joint venture between Tsingshan and Zhongwei, revealed yesterday that it's shipping the first batch of nickel matte to China to further process into sulphate. The timeline of this project is far ahead of our initial projection of 2023. In conjunction with another joint venture between Tsingshan and Huayue, which produces mixed hydroxide precipitate (MHP) from Indonesia, this could further ease the tightness in feedstock for battery cathode materials. However, it looks as though the market finds it difficult to price in these latest developments in the short term, as declining LME inventories continue to provide strong support to prices, and a large concentration of warrants in the nearby contracts makes traders wary of building any significant short positions.

Agriculture

In its second estimate for crop output, India's agriculture ministry estimates wheat production will increase by around 1.6% YoY to a record high of 111.3mt in 2021/22. The ministry estimates total grains output in India will increase by around 1.7% YoY to 316.1mt for the year. The ministry also estimated that sugarcane production will increase from 405mt in 2020/21 to 414mt in 2021/22. Meanwhile, the latest data from the Solvent Extractor's Association of India shows that soybean oil imports remained strong, jumping to 391kt in January compared to just 88.7kt a year ago, as high palm oil prices push buyers to switch to soybean. A slowdown in domestic crushing due to high soybean prices has further helped the growth in soybean oil imports. During Nov'21-Jan'22, India's soybean oil imports increased by around 90% YoY to 1.26mt.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

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