

The Commodities Feed: Middle distillate tightness

Your daily roundup of commodities news and ING views



Energy

Oil prices traded in a choppy manner yesterday, although the market did settle lower on the day. This is despite uncertainty over what the EU may decide in terms of further sanctions on Russia. There had been suggestions that some members were pushing for a ban on Russian oil imports. Although, there has been pushback from a couple of countries, including Germany. EU members are set to meet on Thursday. While it is unlikely that we see an outright ban on Russian oil imports, there could be further calls to reduce Europe's dependency on Russian oil over time.

The middle distillate market continues to be well supported. Gasoil cracks strengthened further yesterday on the back of concerns over tightness in the market. In Europe, gasoil inventories in the ARA region are at their lowest levels since 2008 for this stage of the year. It is a similar story for Singapore. In the US, distillate stocks are at their lowest levels since 2014 for this time of year. A continued reduction in Chinese exports has contributed to this tightness. And given reports that state refiners were asked not to export diesel and gasoline over April, suggests that the market will tighten further. The key driver is the self-sanctioning we are seeing with respect to Russian energy products. Russia is a large supplier of middle distillates. And so the disruption in these flows will tighten the European market further.

Finally, API numbers overnight were fairly constructive. US crude oil inventories declined by 4.28MMbbls over the last week, whilst Cushing stocks increased by 646Mbbls. Refined products also saw declines with gasoline and distillate inventories falling by 626Mbbls and 826Mbbls respectively.

Metals

Metal markets were also choppy yesterday. Base metals opened higher but gave up gains later in the day. Investors continue to monitor the Covid situation in China, where whack-a-mole style lockdowns continue to hit one city after another.

Nickel prices continued to come under pressure yesterday, although managed to close within the daily limit for the first time since the exchange resumed trading week. Among other metals, on-warrant inventories for zinc fell by 16.7kt to 105.6kt yesterday, taking them to their lowest level since July 2020. The decline came as cancelled warrants for zinc rose by 17.1kt to 37.7kt. Overall, cancelled warrants have increased by 24.2kt in the last two days alone. Looking at the spreads, the LME cash/3M spread for zinc moved deeper into backwardation.

The latest data from the International Nickel Study Group (INSG) shows that the global nickel market saw a supply surplus of 6kt in January, compared to a deficit of 5.3kt during the same period last year. The group forecasts a deficit of 157kt for the global market this year, compared to a surplus of 103.7kt in 2021.

Iron ore remained under pressure with the steel raw material trading below US\$150/t in Singapore as demand worries dominate. Tangshan city announced emergency controls after a rise in Covid cases. It has put in place transportation curbs to limit virus transmission, resulting in increased concern about reduced steel output in the region. Some of the steel mills in the region have indicated that they might have to curtail or halt blast-furnace production, as transport restrictions would eventually result in rising inventories at warehouses.

Agriculture

Data from Thai Sugar Millers Corp. show that sugar production in Thailand increased by around 27% YoY to 9.6mt since the season started in early December and that output could increase to around 10mt by the end of the crushing season that concludes at the end of March. Sugarcane crushing in the country increased to 87.8mt, with expectations that sugarcane production could increase by around 35% YoY to 90mt for the full season. Thai sugar output is significantly higher than the production seen over the past two years when drought hit the cane crop. However, output has yet to reach the peak of more than 14mt reached in 2018/19 and 2019/20. The group expects sugar cane production and crushing to increase further in 2022/23. However, higher fuel and fertilizer prices could get in the way of this.

The European Commission's monthly MARS report shows that wheat yields in the region remain steady at around 5.8t/ha in 2022/23, compared to 5.81t/ha in 2021/22 but higher than the five-year average of 5.61t/ha. The spring weather remains favourable for the crop in most of Europe and is likely to support crop progress. Turning to soybeans and the ongoing rail strike in Canada could impact canola exports in the immediate term, and in turn, could support demand for soybeans.

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