

The Commodities Feed: Middle distillates continue to tighten

Your daily roundup of commodities news and ING views



Energy

The oil market was fairly choppy yesterday. ICE Brent traded in a little over a US\$3/bbl range over the course of the day but managed to settle higher. The market appears to be supported by reports that Germany would be willing to support a phasing out of Russian oil, much as we are seeing with coal. If the EU was to go ahead with an orderly phasing out of Russian oil, this would obviously have less of an impact on prices compared to a situation in which we were to see an overnight ban. Phasing out Russian oil over several months would allow time for trade flows to adjust and also be necessary for existing contracts to come to an end.

The EIA's weekly report was fairly neutral for crude oil. Commercial crude oil inventories increased by just 629Mbbbls, although when SPR releases are taken into consideration, total US crude oil inventories declined by 2.22MMbbbls. Cushing crude oil stocks increased by 1.3MMbbbls to 27.45MMbbbls, which is the highest level since early February. Stocks at the WTI delivery hub are still at historically low levels. Refined product inventories edged lower. Gasoline and distillate fuel oil stocks declined by 1.57MMbbbls and 1.45MMbbbls respectively. US distillate stocks have declined by more than 21% YoY and inventories are at their lowest levels since 2008. The situation looks even more dire when we look to the US East Coast, where distillate stocks are down at levels last seen

back in 1996. It is no surprise that we continue to see plenty of strength in the middle distillate market. The backwardation in US heating oil has strengthened significantly over the last week, whilst heating oil cracks have also surged higher. This is not a trend isolated to just the US, we are seeing tightness globally when it comes to middle distillates. These strong cracks should be sending a very clear signal to refiners to either maximise middle distillate yields or increase run rates.

Metals

Industrial metals were buoyant earlier in the trading session yesterday with tentative signs that the Covid situation was stabilising in Shanghai. President Xi also pledged to step up infrastructure construction to bolster the economy at a meeting of the Central Committee for Financial and Economic Affairs. However, the dollar index surged to a five-year high as the day progressed, which led to copper surrendering all its earlier gains. In addition, the European gas payment standoff lent some support to aluminium and zinc, as supply concerns flared up again after [Russia cut off gas supplies to both Poland and Bulgaria](#). This helped to shield the two metals from the stronger dollar.

LME copper stocks surged to 148.5kt on Wednesday, increasing 67% year-to-date, largely due to arrivals at exchange warehouses based in Asia. Chinese copper smelter, Xiangguang, is said to restart after getting a rescue deal with another state-owned trading house, Xiamen Jianfa, which should avoid further refined copper production losses. The rally in spot treatment charges stalled at just below \$85/t compared to \$60/t at the start of the year. On the mine side, authorities in Peru declared a state of emergency around the Las Bambas copper mine, which has seen operations disrupted due to protests. Authorities have now reportedly evicted protestors in order to allow operations to return to normal.

Agriculture

Crude palm oil prices jumped more than 10% yesterday after Indonesia announced that it would now include crude and refined palm oil in an export ban which starts today. Previously, it was suggested that the export ban would be imposed only on higher-value products including RBD palm Olein. However, Indonesia has decided to go a step further and restrict exports of all forms of palm oil to improve availability for the domestic market. Indonesia exported around 28mt of palm oil in 2021, largely to India, China and other Asian countries. The lack of this supply is likely to push up demand for alternative edible oils, including soybean oil and rapeseed oil among others. Surging palm oil prices in turn have been supportive for soybean oil and as a result for soybean prices as well.

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 <http://www.ing.com>.