The Commodities Feed: More US LNG to Europe

Your daily roundup of commodities news and ING views

Energy

The oil market came under some pressure yesterday. ICE Brent settled a little more than 2% lower on the day, which saw it close below $120/bbl. This weakness has continued in early morning trading in Asia today. It is still looking unlikely that the EU will go the route of an all-out ban on Russian oil. Austria is the latest EU member to say it will not agree to a ban.

Crude loadings have partially resumed at the CPC terminal on Russia's Black Sea coast. The terminal had sustained damage from bad weather, halting loadings. One of the three moorings at the terminal is operational.

Another development that would have put some pressure on the market is the fact that ICE increased margins for ICE Brent by 19% to US$11,920 per contract. This obviously makes it more expensive for market participants to trade. This move will do little to help open interest, which has been in steep decline since mid-February and is basically at the lowest level we have seen since 2015. Falling market liquidity means that the market will likely continue to trade in a volatile manner.

There are reports that a deal between the US and the EU will see up to 15bcm of additional US LNG supplied to Europe in 2022. The deal is expected to be announced on Friday. While US LNG export terminals are operating near capacity, there will be a ramp-up of some new capacity over the course of the year. An increase of 15bcm from 2021 levels (when 22bcm was exported to the EU) should be achievable, particularly if we continue to see the strong flows that we have seen so far this year. However, it still falls well short of replacing Russian gas imports, which amounted to around 155bcm in 2021.

Metals

A series of summits this week between President Biden and EU members which discussed the potential for further sanctions against Russia has kept markets on tenterhooks. While the most recent run of US data is believed to endorse a more hawkish stance from the Fed to hike more aggressively at its next meeting.

Base metals slipped in London yesterday with the exception of nickel, which saw 3M prices hitting the daily up-limit of 15% for a second day. Short-term price action still appears to be decoupled from the fundamentals amid market disarray. The catalyst for the rally yesterday appears to be short-covering. According to reports, Tsingshan bought back and closed out some of its short positions.

As for the China market, the ongoing Covid outbreak continues to see disruptions to both supply and demand for metals, but there is not yet a clear view regarding the net effect. During the week, aluminium billet and ingot inventories continued to decline. In addition, a wire and cable producer based in Hebei Province reportedly suspended operations after Tangshan city was put under emergency mode and logistical constraints disrupted raw material supply.

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