The Commodities Feed: Nickel surges to record levels

Your daily roundup of commodities news and ING views

A nickel mine in Indonesia

Energy

It was a volatile day in energy markets yesterday. ICE Brent managed to trade to an intraday high of US$139.13/bbl on the back of fears that the US and Europe could announce a ban on Russian oil. However, comments from the German Chancellor that Europe cannot secure its energy needs without Russia did see the market give back a lot of the gains made earlier in the day. While the US appears to be moving quickly towards a ban, we will need to keep more of an eye on Europe, given it is a significant home for Russian oil, whilst only about 3% of US crude oil imports originate from Russia. The self-sanctioning we are seeing at the moment in the oil industry appears to be working almost as well as a ban on Russian oil, which is well reflected in the weakness in the Urals differential.

The latest trade data from China shows that imports of crude oil over January and February averaged 10.58MMbbls/d, down 3.3% YoY. Refined product exports over the same period totaled 7.3mt, down a little more than 33% YoY.

European gas prices surged higher yesterday, with TTF at one stage trading as high as EUR345/MWh, although finished the day closer to EUR227/MWh, which leaves it at an oil equivalent of more than US$412/bbl. Concerns in Europe over supply from Russia continue to drive the market. Comments from Russia's deputy prime minister, suggesting that Russia could stop flows of Russian gas through the Nord Stream 1 pipeline, will be leaving the market nervous. The strength seen in the European market has also fed through into the spot Asian LNG market, with prices rallying by more than 30% yesterday to above US$50/MMBtu.

Metals

The metals complex saw dramatic moves yesterday. Nickel has seen outsized upside moves, with LME 3M prices breaking a record at US$55,000/tonne, its largest single-day gain in history, and it's likely to be fueled by bears buying back to cover their short positions. Aluminium also surged above the US$4,000/tonne mark, another fresh record in the LME 3M contract, before paring all the gains together with copper during the later sessions amid profit taking. The uncertainty in the market has also led to buyers trying to avoid buying alumina from refineries owned by Russian companies. This essentially led to a sudden drop in in liquidity and pushed up raw material prices. According to Bloomberg, the Dunkirk aluminium smelter has entered a multi-year supply facility with Glencore. The smelter was reported to buy alumina from Aughinish-one of Rusal's overseas alumina refiners based in Ireland. It is also reported that the Ukrainian ambassador had called for this refinery to be shut down, but the Irish authorities have rejected this so far. In a scenario where we see growing supply disruptions in the alumina market, there could be more upside risk to aluminium.

The gains in copper have been modest compared to nickel and aluminium. On the supply side, the situation is less clear-cut than other metals with large exposure to the current conflict. The red metal is mostly macro influenced and faces a diametrically opposite policy stances from the US and China. Next week, it faces a key event when the US Fed discusses monetary policy. On the China side, physical indicators have yet to show clear evidence of demand warming up just yet. Instead, the recent strength in LME prices relative to Shanghai has led to a reduced appetite for bonded copper among onshore traders, which is reflected in the decline in the Yangshan premium. Unlike copper, iron ore primarily focuses on Chinese developments. The steel material received another dose of optimism from the latest GDP target, as well as declining inventories at Chinese ports.

Author

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