

The Commodities Feed: Possible oil stock release

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Energy

Energy markets continue to be well supported by the uncertainty over Russian supply. ICE Brent rallied by more than 4% yesterday following plans to remove some Russian banks from SWIFT, whilst the broader escalation in tensions would have only further supported prices. We believe that the market has priced in some limited supply disruptions, but certainly not a scenario of sanctions on energy exports. As a result, this does leave upside risk if the situation was to deteriorate further.

The high price environment is also increasing the likelihood of a coordinated release from oil reserves. Reports suggest that the US and other countries are considering a potential stock release of 60MMbbls. The IEA will hold an emergency meeting today, where a potential release will be discussed. A stock release should offer some short term relief to the market. But in the longer term, if there are significant disruptions to Russian oil flows, we will need to see some longer-term solutions. This could include OPEC+ members increasing output more aggressively and/or fast tracking the Iranian nuclear deal. The latter could bring around 1.3MMbbls/d of supply to the market in the longer term.

The European gas market also remains well supported, given the obvious supply risks. This is despite the fact that Russian gas flows into Europe have increased in recent days. In addition, European gas storage continues to move further into the 5-year range, which would help to slightly ease concerns in the immediate term. However, there is still plenty of uncertainty as we move towards the injection season, and whether Europe will put enough gas into storage for the next heating season. The spread between spot Asian LNG and European hub prices suggests that spot LNG cargoes should continue to flow into Europe. If we look at the forward curves, there is little between Asian and European prices later in the year.

Metals

Aluminium and nickel continue to lead the rally amid the Russian-Ukrainian conflict. The LME 3M aluminium continued to make fresh highs, touching US\$3,525/tonne, and nickel broke above US\$25,000. While uncertainty dominates, markets are searching for evidence of whether Russian metals flows have been disrupted. We had suspected that Russian metals flows could become increasingly restricted as supply chain members effectively put on self-sanctions.

Yesterday, there were reports that nickel flows were disrupted, though only mildly, as some shippers refused to ship Russian metals. Meanwhile, Germany has stopped taking steel from Russia. In addition, the war in Ukraine has disrupted activities, and Rusal said that one of their alumina refineries based in Ukraine, the Mykolaiv alumina refinery, has halted shipments. The refinery produces around 1.7 mt of alumina per year, which supplies Rusal's smelters. The situation is worth paying attention to as this could further disrupt primary aluminium production.

Investors are closely watching whether China could become an outlet for Russian metals, but there is little evidence of this so far. Onshore markets seem to be expecting an increase in flows from Russia. From a pure market point of view, since London prices are much stronger than Shanghai, reflecting different market dynamics, the import arbitrage based on current market prices is uneconomical for aluminium and nickel. Instead, current market dynamics should incentivise more exports of downstream production such as aluminium products that have already seen stronger volumes over the past two years, thus further supporting demand from the China market.

Agriculture

Grain prices continue to trade in a volatile manner as the situation between Russia-Ukraine evolves. Uncertainty around the Black Sea region saw shipping and logistics costs increasing, whilst the risk of sanctions is also having an impact. In Ukraine, supplies have been disrupted due to a suspension of shipping operations at ports.

The latest USDA data shows that weekly exports from the US were softer last week. Weekly US export inspection of soybean fell from 1.04mt to 735kt, corn export inspections declined from 1.58mt to 1.54mt, and inspections for wheat over the week totaled 406kt, down from 571kt.

The International Sugar Organization (ISO) has revised down its sugar supply deficit estimate for 2021/22 to 1.93mt, compared to an earlier estimate of 2.55mt. The organization slightly increased its global production estimate to 170.5mt, whilst demand estimates were revised down to 172.4mt.

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