

# The Commodities Feed: Recession fear weighs on the complex

Your daily roundup of commodities news and ING views



Source: Shutterstock

## Energy

The oil market came under pressure with the rest of the commodities complex yesterday. ICE Brent traded as low as US\$107.03/bbl at one stage. Growing fears over a recession have weighed on risk assets, and comments from Jerome Powell during his congressional testimony would not have helped. Powell commented that a soft landing would be "very challenging". However, the issue for the oil market is on the supply side. Russian supply disruptions and limited OPEC spare capacity should continue to offer support to the market. Although clearly, a slowdown in global growth is a risk to oil demand, which could help ease some of the tightness in the market. Already, we have seen demand estimates revised lower over the course of the year. While this may help to ease some of the tightness in the short to medium term, it does little to solve the longer-term supply shortfalls.

The IEA released its latest World Energy Investment report yesterday, in which they estimated that upstream oil & gas spending in 2022 would grow by 10% this year from 2021 levels. This would leave upstream investment for the year at around US\$418b, which would still be below pre-pandemic levels. In addition, the IEA points out that a large part of the increased spending reflects increased costs, and so adjusting for inflation makes the YoY increase in spending even less

impressive.

The latest data from the API overnight showed that US crude oil inventories increased by 5.61MMbbls over the last week. A similar number from the EIA later today would mean the largest crude build since early May. On the refined product side, gasoline inventories increased by 1.22MMbbls, whilst distillate stocks declined by 1.66MMbbls. If EIA gasoline inventory numbers are aligned with the API, we could see the largest build in US gasoline stocks since late January. Although, with absolute stocks still at multi-year lows, gasoline cracks are likely to remain well supported.

## Metals

Metals markets were unable to escape the broader risk-off move across markets. LME copper fell almost 2.5%, which saw it trade down to the lowest levels since February last year. Supply risks due to strike action in Chile have offered little support to the market. Although, in the latest statement from Codelco, the miner said it has been able to continue its mining activities despite some disruptions caused by strikes. This is at odds with comments from unions, who have said that output has been hit across all mines.

While the macro picture is a concern for metals, micro developments for some metals continue to point towards a tight market, especially in the ex-China market. LME zinc on-warrant stocks set a fresh new low of 26kt yesterday, with another sizable increase in cancelled warrants (15.3kt). As a result, the cash/3m spread continues to strengthen, hitting US\$160/t yesterday, the highest level since May 2019.

The most active SGX iron-ore contract came under further pressure yesterday, falling almost 6% to a little over US\$108/t. Mysteel reported that at least 18 blast furnaces have started their planned maintenance (three times more than six days ago), with molten iron ore production falling by 54.3kt per day.

## Agriculture

CBOT wheat managed to resist the broader weakness across commodities after reports of a Russian attack on the Ukrainian port of Mykolayiv. The recent attacks on Ukrainian ports do little to build confidence that we could see a restart in Ukrainian grain exports from Black Sea ports anytime soon. Further supporting wheat prices was the USDA's weekly crop progress report, which showed that US winter wheat conditions remain poor with only around 30% of the crop rated in good-to-excellent condition, compared to 31% a week ago and 49% at this stage of the crop last year.

### Author

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto: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 [www.ing.com](http://www.ing.com).