The Commodities Feed: Risk-off move

Your daily roundup of commodity news and ING views

Energy

The oil market came under pressure yesterday along with other risk assets. Omicron concern continues to linger, while the downgrading of two Chinese property developers to restricted default by Fitch would have not helped sentiment either. However, assuming no drastic sell-off in today's session, oil is still set to finish the week higher, following the initial sell-off in the market last week due to Omicron. Whilst the flat price has recovered considerably over the last week, the same cannot be said about the timespreads. The prompt Brent spread is at its weakest level since February and appears to reflect expectations for a loosening in the oil balance in the coming months. Similarly, the WTI timespread has also come under pressure, trading down to its lowest levels since late 2020. The fact that we have now seen several weeks of inventory increases at the WTI delivery hub, Cushing, appears to be weighing on WTI spreads. It is difficult to be too constructive on the flat price with the weakness we are currently seeing in the spreads.

The latest data from Insights Global show the refined product inventories in the ARA region increased by 279kt over the last week to 5.25mt. The bulk of the increase was driven by gasoline, where stocks increased by 220kt. This takes gasoline inventories in the region back above the 5-year average for this time of the year. Expectations of building gasoline stocks in the coming weeks, not just in NW Europe but also the US should keep gasoline cracks in check.

Metals

LME nickel led the declines amongst the metals complex yesterday with prices finishing around 1.75% lower as plans to boost the supply of high-grade nickel took another step forward. Tsinghan Holding Group has reportedly started nickel matte production in Indonesia this week, becoming the first project to achieve commercial production in Indonesia. The group plans to create a cheap and ample supply of battery-grade metal, which could help ease concerns over tightness in the market.

Agriculture

In its latest WASDE report, the USDA left the US corn and soybean balance sheet unchanged. Ending stock estimates for corn and soybeans were left at around 1.49b bushels and 340m bushels respectively. The US wheat balance saw a small increase with ending stock estimates revised up from 583m bushels to 598m bushels. This change was largely driven by lower expectations on the export front. US wheat exports in the marketing year were lowered by 20m bushels to 840m bushels.

Globally, the USDA increased corn stock estimates at the end of 2021/22 to 305.5mt compared to an earlier estimate of 304.4mt. This was driven mostly by upward revisions in beginning stocks. Global corn production estimates were increased by around 4.1mt with major increases for the EU (+2.5mt) and Ukraine (+2mt). However, demand estimates were also increased by around 3.8mt with an upward revision for the EU (+2.3mt). The global soybean balance tightened for 2021/22 mainly due to lower supplies from China, which sees global ending stock estimates lowered from 103.8mt to 102mt. The market was expecting a reading of around 104.4mt. Global wheat inventory estimates were increased from 275.8mt to 278.2mt due to a revision in beginning stocks, along with an increase in supply expectations. The agency raised its wheat supply estimates for Australia and Russia by around 2.5mt and 1mt respectively.

Author

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