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COMMODITIES DAILY

The Commodities Feed: Russia cuts off gas supplies to Poland & Bulgaria

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Energy

European gas prices surged higher yesterday, with TTF settling more than 11% higher on the day. This comes after Russia announced that it would cut gas flows to Poland and Bulgaria, given that these buyers failed to agree to pay for Russian gas in roubles, or at least failed to open a special bank account at Gazprombank which would facilitate payment to Gazprom.

Both countries have high dependence on Russian gas. Poland has a contract (Yamal contract) with Gazprom for 10.2bcm of annual supply. This contract was set to expire on 31 December 2022 and it has been made pretty clear that Poland would not renew it. Poland has been keen to diversify its gas supplies, and this is evident with the growth in LNG imports into the country over the years. Over 2021 Russian gas flows to Poland made up more than 61% (9.9bcm) of total imports, whilst in 1Q22, this fell to 53% (2.15bcm) of total imports, according to PGNiG. Poland has more than comfortable storage, with Gas Infrastructure Europe numbers showing that storage is 76% full, well above the 5-year average of around 40% for this time of the year. Stronger flows from Germany and record LNG imports have helped to ensure adequate supply. Bulgaria appears to be more vulnerable, while it is a small gas consumer (around 3bcm per

year), more than 90% of its gas requirements are met by Russia. In addition, gas storage is low at the moment, with it just 17% full, compared to a 5-year average of almost 26% at this time of the year.

A concern for the EU market, as well as global gas markets is whether Russia will escalate further by cutting supplies to other European countries. Almost all buyers have said they will refuse to change payment terms, with the exception of at least Hungary. Although last week the European Commission suggested that if European buyers pay euros or dollars into a Gazprombank account, it would not necessarily breach sanctions, as long as the obligation ends at this point, and that buyers are not involved in the conversion of euros or dollars into roubles at a later stage.

Regardless, this latest move by Russia and the very real risk for even further escalation suggests that European gas prices will remain well supported. This will have a spillover into other gas markets, particularly the Asian market. Europe will have to increasingly compete with Asia for flexible LNG supply, which will keep Asian spot LNG prices well supported.

Agriculture

In its monthly crop monitoring MARS report, the European Commission lowered wheat yield estimates for 2022/23 to 5.74t/ha, compared to its earlier estimate of 5.8t/ha. This is still higher than the 5-yr average of 5.62t/ha. Whilst most of Western, Northern and Northern-Central Europe has witnessed favourable weather over recent weeks, dry conditions in Southern and Central Europe weighed on winter crops and yield estimates. The European Commission left its corn yield estimate unchanged at 7.91t/ha, up from a 5-yr average of 7.86t/ha. Meanwhile, weekly trade data from the European Commission shows that wheat shipments from the region continue to trickle at a slower pace due to supply shortages. The EU exported around 214kt of soft wheat over the last week, compared to around 334kt a year ago and more than 1mt in 2019/20 at this point in the season. Common wheat exports have dropped by 3.6% in the season so far, to 21.6mt.

The latest report from Statistics Canada shows that wheat acreage in the country could increase by around 7.2% YoY to 25m acres in 2022/23 as stronger prices and healthy demand for grain prompt farmers to plant more wheat. The agency estimates spring wheat acreage to increase 7% YoY to 17.6m acres, with durum wheat acreage likely to rise 12.5% YoY to 6.2m acres. Winter wheat acreage could decline by around 13% YoY to 1.2m acres. Similarly, corn acreage is estimated to increase 6.4% YoY to 3.7m acres as stronger prices offer good margins for farmers.

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