The Commodities Feed: Russia-Ukraine tensions dominate

Your daily roundup of commodity news and ING views

Tank farm for storage of petroleum products in Volgograd, Russia

Energy

International Energy Week kicks off in London this week and it is pretty clear what the key discussion points will be for those who attend. Russia/Ukraine tension continues to dominate the market. There has been increased activity on the Russian/Ukrainian border in recent days and so the market will be getting nervous over the fact that we are not seeing a de-escalation. Whilst there is plenty of uncertainty about what Russia may do, there is even more uncertainty over how the West may respond. The US has suggested that it will retaliate with sanctions, however, it is unclear how far-reaching these would be or whether it would impact Russian crude oil exports. Given that Russia is the second-largest crude oil exporter, any impact on Russian crude oil flows would be bullish. The Urals differential continues to weaken, given that refiners are reluctant to commit to Russian crude oil when there is a risk of sanctions.

Sticking with sanctions, Iran will also be a key discussion point at the International Energy Week. “We have never been this close to a deal” are the comments from the Iranian foreign minister. A deal would obviously be a bearish development for the market, particularly if Iran is able to ramp up exports fairly quickly. However, just how bearish would depend on where we are with Russia-Ukraine by that time.

The physical oil market will be another topic of interest. The North Sea physical market has been very strong recently, helped out by good refinery margins. In addition, uncertainty over Russia and the potential for sanctions would have likely seen some European refiners preferring to lock in North Sea crude oil rather than Russian oil. Middle East grades have also seen strength, which again would have been supported by refinery margins, along with a widening in the Brent/Dubai spread. The strong spread would mean that Atlantic Basin crudes are too expensive for Asian refiners, so they will be turning increasingly to Middle East grades.

The latest positioning data shows that speculators marginally increased their net long in ICE Brent by 456 lots to 223,353 lots as of last Tuesday. This is still some distance from the record net long of around 632k lots seen back in 2018. It is fairly surprising that current positioning is not larger, given the tightness in the market, along with the geopolitical risk. Obviously, the limited positioning we see from speculators gives them plenty of room to add to their longs with the right catalyst. Even if we look at the speculative position in USD terms, it still suggests that speculators have plenty of room to add to their current positions. The USD value of the current net-long is a little over US$21b compared to more than US$46b back in April 2018.

Metals

Base metals were mixed on Friday. LME nickel continued to trade higher and closed at US$24,144/t (highest closing price since 2011), supported by lower exchange inventories. There will also be a risk premium given the potential for disruptions from Russia amid escalating tensions with Ukraine. A strong new energy vehicle (NEV) market in China also continues to build optimism for battery metals and copper demand. According to the latest data from the China Association of Automobile Manufacture (CAAM), China's NEVs sales grew by 136% YoY in January.

As for aluminium, Norsk Hydro ASA said that operations at its Albras aluminium smelter in Brazil were disrupted, as one of the four production lines was shut down due to an internal power failure on Saturday morning. The affected line produces 110kt of liquid aluminium annually; however, the other three lines are operating normally. The smelter has a total production capacity of 460kt per year.

The latest CFTC data shows that speculators increased their net long position in COMEX copper, buying 12,055 lots over the last reporting week, and leaving them with a net long of 36,868 lots as of last Tuesday. For precious metals, speculators increased their net long in COMEX gold by 40,757 lots, to leave them with a net long of 125,646 lots (highest since the week ending on 9th November) while increasing their net long in silver by 7,506 lots.

Agriculture

The move higher in soybeans continued on Friday with CBOT soybeans finishing the week at around a 9-month high of US$16.02/bu on stronger demand for US soybeans. Stronger crude palm oil prices in Asia also continue to be supportive to the whole oilseed complex as consumers switch from CPO to premium soybean or other edible oils. Speculative interest in soybeans remained high over the last week with managed money net longs increasing by another 9,057 lots. This was the fourth consecutive week of longs adding to their position, which has taken the net long to a 9-month high of 175,372 lots.

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