

The Commodities Feed: Russian gas flows to Finland stop

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Energy

Tightness in the refined products market continues to support the oil market. ICE Brent managed to eke out a gain of a little under 1% last week, which saw it settle above US\$112/bbl. But despite the increasingly tight US gasoline market, speculators have been reluctant to jump into RBOB gasoline. The speculative net long in RBOB increased by just 4,080 lots over the last reporting week to 60,557 lots as of last Tuesday. This is still some distance from the slightly more than 80k lots seen back in February and is significantly below the record net long of around 132k lots seen back in 2018. This could leave some with the view that speculators have plenty of room to push the gasoline market even higher. However, as we have seen across the commodities complex in recent months, there is limited appetite, not just from investors, but market participants in general. This is evident when looking at the aggregate open interest in gasoline, which has been at its lowest levels in recent months since 2014.

Speculative positioning in ICE Brent also continues to be fairly muted. Speculators increased their net long in ICE Brent by 23,801 lots over the last reporting week to 184,433 lots. This net long is well below levels seen over much of 2021, and significantly lower than the record net long of

around 632k lots seen back in 2018. This arises despite the oil market being much tighter now than it was back in 2018.

The higher oil prices we are seeing at the moment should help to alleviate the tightness in the market, through demand destruction in the near term and stronger supply growth in the medium to long term. Already we have seen demand growth forecasts for 2022 revised down significantly due to China's Covid related lockdowns and the higher price environment. However, steps taken by governments - such as cutting fuel taxes and increasing fuel subsidies - make it more challenging for the market to resolve its current tightness. Over the weekend, the Indian government announced that it would be cutting retail taxes on both gasoline and diesel by INR8/litre and INR6/litre respectively in a bid to try tame inflation.

Finland saw its gas flows from Gazprom shut off over the weekend due to its refusal to pay for Russian gas in either roubles or by opening an account at Gazprombank which would allow euros or dollars to be converted to roubles. The cut off in supply was expected. And whilst Finland sources almost all of its natural gas from Russia, natural gas only makes up around 5% of Finnish energy consumption. Given the stoppage of Russian gas flows through the entry point in Imatra, Finland will source gas through the Balticconnector instead (pipeline connection between Finland and Estonia). Finland is the third EU country to see Russian gas flows halted, with Poland and Bulgaria flows shut off last month.

Metals

On Saturday, the Indian government announced that it would hike export tariffs on iron ore and several steel products, whilst cutting import tariffs on steelmaking raw materials. The announced measures came into effect on Sunday. The latest move is part of a series of changes to taxes on crucial commodities aimed at reining in domestic inflation. For iron ore, the tariff for lumps (Fe above 58%) will rise from 30% to 50%, and all fines will be subjected to a 50% tariff. Pellets, which previously were not subject to a tariff, will now see a 45% export tariff imposed. In the case of steel products, up to eight items, including flat-rolled products, will be subjected to a 15% export tariff.

According to the latest numbers from the International Aluminium Association (IAI), global primary aluminium daily output averaged 186.6kt in April, compared to 185kt in March. Total monthly output for the metal stood at 5.99mt last month, down 2.4% MoM, whilst largely unchanged YoY. Cumulative output over the first four months of the year fell 1.1% YoY to 22.15mt. Output from China declined 1.5% MoM to 3.29mt, whilst cumulative production fell 1.3% YoY to 12.9mt.

The latest CFTC data shows that speculators decreased their bearish bets in COMEX copper marginally by 538 lots over the last reporting week, to leave them with a net short of 17,198 lots as of last Tuesday. In precious metals, net longs in COMEX gold were reduced by 19,322 for the fifth straight week, leaving them with a net long of 54,569 lots.

Agriculture

Speculators increased long positions in CBOT wheat over the past week as India's surprise ban on wheat exports increased supply risks for the grain. CFTC data show that the managed money net long in CBOT wheat increased by 11,039 lots over the week ending 17 May, leaving the net long at a 1-year high of 26,586 lots. The move higher was predominantly driven by fresh longs of 10,095 lots. Money managers increased their net long positions in CBOT soybean and corn as well by 16,674 lots and 1,149 lots respectively over the last week. A mixed set of forecasts from the USDA

has kept speculative activity relatively low over the last week. However, risk-averse sentiment over the past few days has likely pushed speculators to trim speculative longs, which should be evident in the next data release.

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