The Commodities Feed: Russian oil escapes sanctions for now

Your daily roundup of commodities news and ING views

Tank farm for storage of petroleum products in Volgograd, Russia

Energy

The oil market gave back a lot of its earlier gains on Tuesday, with it becoming clear that the EU would not target Russian oil under the latest round of sanctions. Instead, coal would be targeted when it comes to Russian energy exports. Volatility in the oil market has eased as the market comes to terms with the impact from self-sanctioning of Russian oil. There are also signs that tightness in the physical market is easing or at least the market is not as concerned about tightness at the moment. The prompt Brent timespread has fallen sharply over the last month. This spread was above US$4/bbl back in early March, whilst it is now trading at below US$1.50/bbl. The DFL spread is also at its weakest level since late January. In addition, the physical market in the North Sea has seen cargoes offered well below levels seen just a few weeks ago. This suggests that many in the market were assuming a bigger impact on Russian oil flows than we are currently seeing. However, there is still plenty of uncertainty over how sanctions evolve in future. If the EU believes that further rounds of sanctions are needed, we cannot rule out that this will eventually include oil.

API numbers released overnight were fairly uneventful. The API reported that US crude oil inventories increased by 1.08MMbls over the week, whilst crude stocks at Cushing increased by

1.79MMbbls. The products side also saw relatively small changes, with gasoline inventories falling by 543Mbbls, whilst distillate stocks grew by 593Mbbls.

Metals

The base metals complex traded in a tight range yesterday, with copper barely moving in London, while the rest of the metals were somewhat of a mixed bag. Chinese onshore traders were off yesterday due to a public holiday, while investors digested the potential for further sanctions against Russia. The European Commission is set to propose a ban on Russian coal imports, which could dash hopes for smelter restarts due to elevated energy prices. German aluminium producer Trimet said a couple weeks ago that it planned to cut production further at one of its smelters based in Essen. Altogether, higher energy prices have led to almost 800kt of production losses on an annualised basis since 4Q21. As the energy market shows no signs of abating, smelter restarts are pushed further back.

Canadian miner Teck Resources has agreed to a longer-term zinc concentrate contract for 2022 with South Korean-based zinc smelter, Korea Zinc, which is often regarded as the industry benchmark treatment charge (TC). TCs were increased by 45% to $230/tonne. In addition, the parties also brought back an escalator clause on top of the TC terms that will increase by 5% when refined zinc prices trade over US$3,800/t; hence smelters would be able to enjoy the upside but not necessarily the downside. In the Chinese onshore spot market, TCs for overseas concentrate and domestic concentrate has have been diverging since the beginning of the year, with the former rising from an average of US$80/tonne at the start of the year to US$180/tonne more recently, reflecting an easing in concentrate supply in the ex-China market amid smelter suspensions.

Agriculture

In its latest short-term outlook, the European Commission estimates that grains production in the EU could increase 1.5% YoY to 297.7mt in 2022/23, with soft wheat production rising by around 1% YoY to 131.3mt. The Commission estimates that soft wheat exports from the EU will increase by around 21% YoY to 40mt in 2022/23 as high prices and short supply from Russia-Ukraine creates additional demand for European wheat. Wheat inventories at the end of 2022/23 are estimated to drop to 12.2mt, compared to 13.2mt at the end of 2021/22. For corn, the European Commission estimates regional production to increase 2.2% YoY to 74mt, with net imports falling by around 47% YoY to 4.6mt. Corn stocks at the end of 2022/23 could drop to 18.9mt, compared to 20mt at the end of 2021/22. For sugar, the EC estimates that sugar beet acreage in the region could be largely stable at around 1.48m ha (-0.8% YoY) with yields higher at 77t/ha (+1.2% YoY). As a result, sugar beet production could increase marginally to around 114mt in 2022/23, compared to 113.7mt in 2021/22.

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