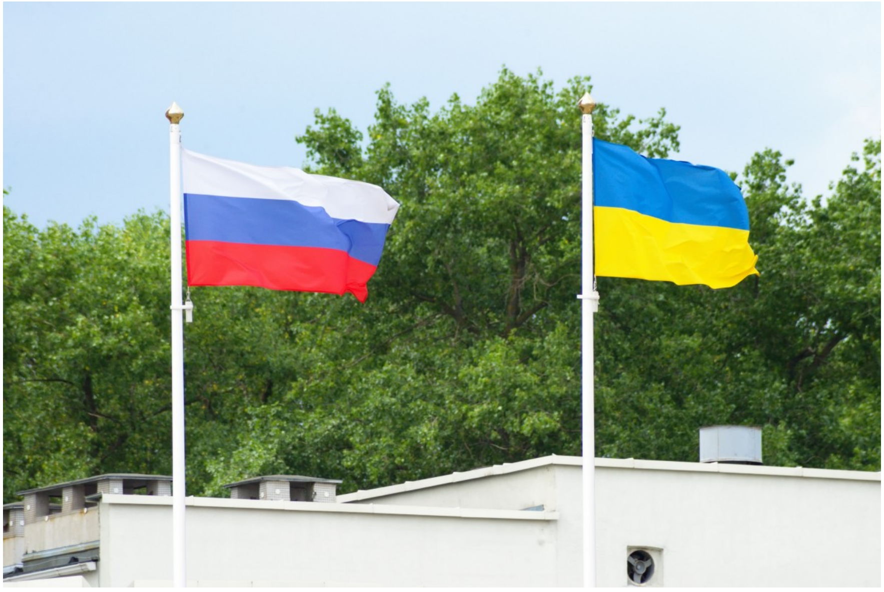
The Commodities Feed: Russian sanction risks grow

Your daily roundup of commodity news and ING views



Russia and Ukraine flags

Energy

Oil prices have surged this morning taking Brent back above the US$100/bbl mark. This comes after the latest round of restrictions put in place against Russia - in particular the removal of some Russian banks from SWIFT, which raises concern over the impact on trade with Russia. And whilst the US has said that there will be exceptions made for Russian energy exports, the market is clearly nervous given that sanctions are becoming increasingly restrictive. The growing risk of sanctions has reduced the appetite of many in the industry to commit to Russian oil. This is reflected in the Urals differential falling to record lows. In addition, the risk appetite from banks to finance the trade in Russian commodities appears to be greatly reduced, with a number of banks suspending financing for this business. This action is not isolated to Western banks. There were reports at the end of last week that some state-owned Chinese banks have also restricted financing Russian commodities. Clearly, given the ongoing uncertainty, oil prices are likely to behave in a volatile manner at these elevated levels.

All eyes will be on OPEC+ this week. The group meet on 2 March to discuss their output policy for April. There will likely be some pressure on the group to increase output more aggressively given the current situation with Russia and the high price environment. However, comments from some

OPEC+ members suggest that they will stick to increasing output by 400Mbbls/d since the current high price environment reflects geopolitical risks rather than supply and demand imbalances. Therefore, anything more than 400Mbbls/d would be a surprise to the market and has the potential to offer some immediate-term weakness. Although in the current environment, such weakness would probably be short-lived.

The other potentially interesting development for the oil market this week will be the Iranian nuclear talks. Iran has said that there are still some 'serious challenges' to resolve. But a Russian diplomat has said that we could very well see a deal within a week. If this is indeed the case, it would offer much-needed relief to the market. Iran would likely be able to boost exports fairly quickly by drawing down inventories built over the sanctions period. In the medium term, Iranian oil output could increase from 2.5MMbbls/d currently to around 3.8MMbbls/d.

Metals

Russia-Ukraine developments have sparked jitters across markets. Oleg Deripaska, Rusal's founder, has called for peace talks to begin 'as soon as possible'. However, it's still unclear whether metal flows from Russia would be affected. As sanctions against Russia become increasingly restrictive, it has provoked some market participants to put on self-sanctions. Should buyers hold back from taking Russian metals, this would exacerbate market tightness from aluminium to nickel.

In China, markets continue to scrutinize signs of demand starting to pick up. But rising inventories in the short term still weigh on sentiment. In addition, Covid outbreaks in multiple provinces and cities have overshadowed activity. Markets will also pay close attention to the coming Two-Sessions beginning this Saturday (March 5) in search of more details to support its pro-growth policy stance.

The latest CFTC data show that speculators trimmed their net long position in COMEX copper, selling 3,457 lots over the last reporting week, leaving them with a net long of 33,411 lots as of last Tuesday. Moving to precious metals, speculators increased long positions in gold to the highest since the week ending on November 16, as the Russia-Ukraine conflict increased uncertainty in the market. Money managers boosted their net longs in COMEX gold by 35,336 lots, leaving them with a net long of 160,982 lots.

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