

The Commodities Feed: Sanctions underwhelm

Your daily roundup of commodity news and ING views



Tank farm for storage of petroleum products in Volgograd, Russia

Energy

ICE Brent moved within striking distance of US\$100/bbl yesterday, as the market awaited the West's response to Russia recognizing separatist regions in Ukraine as independent and sending in peacekeeping troops. However, the sanctions announced so far have underwhelmed commodity markets. As a result, oil failed to break this key level and instead gave back a lot of its recent gains. Sanctions announced up until now should not have much impact on Russian oil exports. Local banks which are heavily involved within the commodities industry have been left untouched. However, the oil market will likely continue to price in a fairly large risk premium, given that there is still plenty of uncertainty. Urals differentials also continue to reflect the sanction risk, falling to their largest discount since at least 2015.

The biggest development related to commodity markets is that Germany has decided not to progress with the Nord Stream 2 pipeline. In theory, this should not have any impact on natural gas flows to Europe, given that the pipeline is not yet operational and there is spare pipeline capacity via other routes. However, Russia could possibly retaliate to the suspension process by further reducing overall Russian gas flows to Europe. The risk of this happening continues to support European gas prices, particularly given that Europe will need to see a large injection

season if it wants to enter next winter with comfortable stock levels. For now, the TTF forward curve suggests that the market will remain tight until the end of the next heating season.

It also appears that Iranian nuclear talks are approaching the finishing line. There are reports that a decision on a deal could be made this week. A positive outcome would provide much-needed relief to the oil market, given the uncertainty over Russia and concerns over the ability of some OPEC members to increase output. Iran is pumping around 2.5MMbbls/d currently, but over time, this could increase output towards 3.8MMbbls/d.

Metals

Aluminium and nickel continued to stand out yesterday, given the geopolitical risks related to Russia, along with the threat of Western sanctions. LME 3M aluminium was only 15 cents shy of its record high back in 2008, whilst nickel broke above \$25,000/tonne driven by mounting fears of a potential disruption in Russian metals flows. However, sanctions announced so far appear as though they will have little to no impact on metal flows from Russia.

Ivanhoe revealed a "de-bottlenecking" plan at its DRC based Kamao-Kakula copper mine which is aimed to further lift the total capacity at its phase 1 and 2 projects to more than 450ktpa by 2Q23, making it the fourth largest copper mine in the world. This comes after the miner announced at the end of January that their phase 2 project would come online in April, earlier than expected.

Agriculture

CBOT grains rallied yesterday as Russia-Ukraine tensions exacerbated supply risks for the global market. Weekly data from the European Commission showed that EU soft wheat exports remained low at around 117kt for the week ending 20th February. This compares to around 389kt at the same stage in 2021 and around 808kt in 2020. Wheat exports from the EU have been facing strong competition from the Black Sea and Brazilian market over the past few weeks. Meanwhile, heightened tensions around Russia-Ukraine and a fair amount of uncertainty over Russian supplies over the coming months has prompted traders to keep their grain at home rather than shipping it overseas. Earlier, in its monthly crop monitoring report, the commission reported that large regions of Western and Southern Europe have been witnessing a rain deficit this season; although its impact on the current crop is limited so far. However, the region would require above-average rainfall over the coming weeks to avoid a negative impact on winter crops.

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