The Commodities Feed: Drone attack on Saudi Arabia

Your daily roundup of commodities news and ING views

Energy

Despite a strong end to the week, Brent settled lower for the second consecutive week. The market is struggling to balance the impact of self-sanctioning of Russian oil and the potential demand hit we are seeing in China due to the latest Covid outbreak. On top of this, the market is still waiting to see how Iranian nuclear talks will play out. If this wasn't enough uncertainty for the market, over the weekend, Iranian backed Houthi rebels attacked multiple targets in Saudi Arabia with drones. These targets also included energy infrastructure. A fuel distribution terminal in Jizan was attacked on Saturday, which was followed by attacks on a natural gas plant and a refinery in Yanbu on Sunday. As a result, the 400Mbbls/d Yanbu refinery has temporarily reduced production, but there will be no supply disruptions to customers, as inventory will be drawn down according to the Ministry of Energy. The product markets are already tight, particularly for middle distillates. Inventories in most regions are at multi-year lows, so the market will be sensitive to any potential supply disruptions on the product side.

Gasoil stocks in the ARA region fell by 34kt over the last week to just 1.6mt. Inventory levels have fallen by around 850kt over the last year and are at their lowest levels for this stage of the year since 2008. In Singapore, middle distillate stocks are similarly low, also flirting with levels that were last seen in 2008 at this point of the year. Tightness in the middle distillate market suggests that cracks will remain well supported in the months ahead.

Given the tightness in the oil market, along with plenty of uncertainty over Russian supply, the IEA at the end of last week released a 10-point plan to help reduce oil demand in order to ensure that we do not see a supply crunch. The IEA believes that if advanced economies fully implement the measures, oil demand could fall by 2.7MMbbls/d within a four-month period. Some of the measures include reducing speed limits on highways, working from home up to 3 days a week and introducing a car-free Sunday.

Metals

Industrial metals with the exception of nickel traded largely flat on Friday, as the market waits for signs of a demand rebound in China following expectations of more supportive policies coming through. Nickel came under further pressure, falling 12% and hitting limit-down yet again. The LME has increased its daily trading limit to 15% from Monday.

On Friday, the LME's copper committee recommended that the exchange should ban the delivery of further Russian copper into LME warehouses according to reports. Russia is the third-largest exporter of refined copper and such action would have a big impact on the market. One would expect that it could also have an impact on other metals on the exchange. However, it was just a recommendation from the advisory group and the LME does not plan to take such action.

Australia has imposed an immediate ban on the export of alumina and aluminium ore to Russia. Australia is the world's largest exporter of alumina and is responsible for almost 20% of Russia's alumina needs. This could see Russia having to rely on China for any shortfall in alumina.

According to reports, Nyrstar will be restarting its Auby zinc smelter in France, although at a reduced capacity, due to high energy costs. The smelter was shut down in January due to strong energy prices. The smelter has an annual production capacity of 172kt per year.

The latest numbers from China's National Bureau of Statistics show that refined copper output rose 4.5% YoY to 1.7mt in the first two months of the year. Among other metals, refined zinc production fell 1.8% YoY to 1.06mt, whilst lead saw marginal gains to stand at 1.15mt during Jan'22-Feb'22.

Agriculture

CBOT grains traded softer last week despite supply risks amid the ongoing Russia-Ukraine war. Speculative activity was relatively quiet over the last reporting week as the situation remains volatile and speculators opted to wait and see. Managed money net longs in CBOT wheat increased by 2,737 lots to 22,945 lots for the week ending 15th March. Speculative net longs in CBOT soybean declined by just 1,024 lots over the week to 170,690 lots, whilst they increased their net long in CBOT corn by a marginal 4,125 lots over the week to leave them with a net long of 372,909 lots.

The Ukrainian spring planting season is approaching and the market will watch progress closely. In the face of raw material shortages including fuel and fertilizers, combined with logistical issues, it could be extremely challenging for Ukrainian farmers to complete the planting season on schedule. More importantly, a prolonged conflict could substantially reduce planting acreage in the country which would weigh on output for the next season.

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