

The Commodities Feed: Saudi OSP raised to record highs

Your daily roundup of commodities news and ING views



Energy

Oil prices are finding some further support in early trading today. The market is waiting to see what further EU sanctions are imposed against Russia following some horrific images coming out of Ukraine in recent days. There will be nervousness around whether these sanctions will target Russian energy exports. Up until now, though, EU members have been unable to agree to such action, given the impact this would have on energy supplies for the region. However, the impact of self-sanctioning continues to be seen, with Urals delivered to NW Europe offered at a \$34.80/bbl discount to dated Brent. In addition, according to Interfax, Russian oil output in March averaged 11.01MMbbls/d, which is down less than 1% MoM. However, these declines will likely increase in the months ahead as domestic storage fills up.

The Saudis have increased their official selling prices for all grades to all regions for May cargoes. Arab Light into Asia was increased by US\$4.40/bbl MoM to leave it at a record US\$9.35/bbl over the benchmark. All grades into the US were increased by US\$2.20/bbl MoM, whilst Arab Light into Europe was increased by US\$3/bbl. These increases in OSPs come at a time when OPEC+ continues to stick to its plan of gradual supply increases, despite the impact of self-sanctioning of Russian oil. As recent as last week, OPEC+ said that *"the outlook pointed to a well-balanced market, and that*

current volatility is not caused by fundamentals, but by ongoing geopolitical developments.”

Metals

Zinc prices led gains on the LME market for most of yesterday after a surge in cancelled warrants. These jumped by 14.7kt on Monday to 59.6kt, the highest since early November last year. On-warrant stocks have fallen to 78kt. Declining inventories leave a thin buffer for the market to sustain further supply shocks. However, European countries are still upended by elevated power prices. On Monday, day-ahead power deliveries in France between 8am to 9am surged to almost 3,000 euro/MWh, that is compared to the 200-300 euro/MWh trading range most of the time this year and the sub-100 euro/MWh historical level. Earlier, Nyrstar's Auby smelter, with 172ktpa capacity, was planned to restart partially. The sharp rise in power prices and power rationing in France put smelter restarts (both zinc and aluminium) in check. The cash/3m zinc backwardation further spiked to over US\$73/t in London, implying tightness in the near term and mounting supply risks.

Expectations of China's metals demand pickup remain intact despite some softness due to Covid. Provincial governments have sped up their bond issuance during 1Q22, with some data suggesting that over 34% of the annual quota for 2022 has already been loaded during the first quarter, validating what the officials had promised earlier this year of front-loading special bond issuances. In addition, Chinese property stocks surged to a five-week high on Monday. Investors are expecting more support measures to be announced, bolstering hopes of firmer metals demand from the country's property sector. This came amid some lower-tier cities in China having eased restrictions on property buying. This may be cited as evidence to bolster market sentiment. Iron ore is holding firm on similar reasoning, with prices trading above US\$160 in Singapore. High-frequency data also points to a rise in BOF operating rates in Tangshan and a dip in iron ore inventories at Chinese ports.

Agriculture

The USDA's first weekly crop progress report for the season showed that the US winter wheat crop was poor for this point in season due to dry weather in major producing regions. The agency rated only around 30% of the winter wheat crop in good-to-excellent condition compared to around 53% at this stage last year and the five-year average of around 48%. The USDA also reported that US corn planting has started at the usual pace, with around 2% planted for the week ending 3 April.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.