

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.

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