

The Commodities Feed: Ukraine gas disruption pushes prices higher

Your daily roundup of commodities news and ING views



Gas storage tank

Energy

Oil sold off with risk assets on Monday, but it failed to follow equities higher yesterday. Instead, downward pressure on the market continued, which saw NYMEX WTI settle below US\$100/bbl. Growth concerns continue to weigh on commodities, and a stronger USD only adds further downward pressure to the complex. This weakness has continued in early trading this morning after the API reported that US crude oil inventories increased by 1.62MMbbls - the market was expecting a small draw. In addition, API numbers also showed an increase in refined product inventories. Gasoline and distillate fuel oil inventories increased by 823Mbbls and 662Mbbls respectively. If today's EIA report shows similar numbers, it would be the first weekly increase for US gasoline inventories since late March and the first for distillates since early April. However, the middle distillate market is still very tight and so we would expect US heating oil cracks to remain well supported. In fact, middle distillate cracks around the world should remain well supported, given the tightness in the market and concerns over Russian gasoil exports.

The EIA released its latest Short Term Energy Outlook yesterday. The report cut expectations for US oil production growth for 2022 from around 833Mbbls/d to 731Mbbls/d, which implies US oil output averaging 11.91MMbbls/d this year. However, for 2023, supply is expected to grow by 940Mbbls/d (largely unchanged from last month), which would see US output hitting a record 12.85MMbbls/d.

Obviously, the biggest concern for the global oil market is around supply in the short to medium term, given the uncertainty over Russian supply. And the downward revisions to 2022 output estimates will do little to ease these concerns.

European natural gas prices showed some strength yesterday. TTF rallied by more than 5%, settling close to EUR99/MWh. This strength came after Ukraine's gas grid operator (GTSOU) declared force majeure on the transit of Russian gas through Sokhranivka, which accounts for about a third of Russian gas transited via Ukraine. GTSOU has said that it is not possible to continue operations through Sokhranivka due to Russia's military aggression in the region. GTSOU said that gas can be rerouted through Sudzha (another entry point), Gazprom has reportedly said that this is not technically possible.

Dutch gas network operator, Gasunie has said that it has contracted a second FSRU (floating storage and regasification unit) for the next 5 years, which would allow it to regas LNG imports at Eemshaven in the north of Groningen. The FSRU is expected to arrive in the third quarter of this year, and along with another FSRU already contracted, would provide a total of 8bcm of regasification capacity at Eemshaven. This regasification capacity would exceed the roughly 6bcm of natural gas that the Netherlands imports from Russia every year. The big question though is if there is enough LNG supply to fully use this capacity, particularly with Germany also securing 4 FSRUs, with an annual capacity of as much as 29bcm. Some of this capacity in Germany is also expected to come into operation ahead of the next winter.

Metals

Base metals continued to decline in London amid fragile market sentiment. Copper initially rallied but was unable to hold onto these gains at the close. Shanghai is going into the hardest phase of lockdowns, weighing heavily on sentiment as local authorities vow to bring the Covid wave under control at the community level by the end of this week. Meanwhile, the China Car Passenger Association (CAPM) confirmed that retail passenger vehicle sales plunged by 36% in April, its biggest monthly decline since March 2020.

LME aluminium prices continue to fall and have largely ignored a steep decline in on-warrant stocks and a large number of cancelled warrants from Asia, signalling further declines. As of Tuesday, on-warrant stocks have fallen to a record low of 294kt, whilst total closing stocks dropped to 560kt - the lowest since 2005.

Antaika has reported that China's aluminium demand fell 5.5% YoY to 3.3mt last month (the biggest decline since March 2020), primarily impacted by the closure of auto producers due to Covid-related lockdowns. In contrast, the impact on Chinese supply has been rather limited so far, with operating capacity rising to 40.31mt by the end of April. As we also pointed out yesterday, Antaika also believes that the recent Covid outbreak has had a larger impact on demand than the early 2020 lockdowns.

Agriculture

Data from Brazil's sugar industry group, UNICA show that sugar production in Center-South Brazil increased to 934kt over the 2nd half of April 2022 compared to only around 127kt over the first half of April as more mills started operations; although it is still significantly lower than the 1.52mt of sugar produced over the same period last season. Sugar cane crushing was down around 20% YoY to 23.8mt over the period with the sugar mix falling to 37.2% compared to 44.5% a year ago.

Cumulative sugar production so far this season in CS-Brazil is down around 51% YoY to 1.1mt, reflecting a slow start to the crushing season. High energy prices continue to be supportive for ethanol production with mills allocating more cane towards biofuel supply.

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