The Commodities Feed: US warnings boost oil prices

Your daily roundup of commodity news and ING views

Tank farm for storage of petroleum products in Volgograd, Russia

Energy

US warnings of Russian military action against Ukraine possibly as early as this week boosted oil prices on Friday. ICE Brent settled around 3.3% higher on the day and that strength has continued in early morning trading today, with the market now trading above US$95/bbl. It is pretty clear that developments related to Russia/Ukraine will be crucial for price direction in the short term, not just for oil but for broader commodity markets. The strength seen in the flat price is also reflected in time spreads, with the prompt ICE Brent spread trading out to more than US$1.90/bbl, highlighting concern over tightness in the spot market.

The IEA in its monthly market report on Friday also made some upward historical revisions to its demand numbers. This means that the IEA now sees oil demand in 2022 reaching 100.6MMbbls/d, up 3.2MMbbls/d YoY. Looking at inventories, OECD industry stocks are estimated to have declined by 60MMbbls in December, which leaves stocks about 355MMBbls lower than levels last year and at the lowest level in 7 years.

The higher price environment continues to see US producers increasing drilling activity. The latest data from Baker Hughes shows that the number of active oil rigs increased by 19 over the last week to 516. This is the largest weekly increase since 2018 and it is also the first time that the rig count has surpassed 500 since April 2020. The high price environment that we are currently in could very well test whether US producers will stick to the capital discipline that we have seen from them over the last couple of years. Strong US supply growth this year will be crucial to our view that the oil market will move back into surplus later in the year.

It is no surprise that the European gas market saw some strength on Friday following US warnings over Russia. However, European inventories are looking in better shape. Strong inflows of LNG more recently coupled with demand destruction means that European gas inventories are moving towards the 5-year range. Currently, storage is a little less than 34% full, compared to a 2017-2021 low of 35% for this stage in the year. This should help ease some concern over tightness in the near term. However, the market will start to focus increasingly on where storage levels will be when we enter the next heating season. For now, it looks as though we will enter next season with low inventories once again.

Metals

News that the US believes Russia could take military action against Ukraine triggered a broad sell-off in the industrial metals complex, whilst gold out-performed due to its safe-haven appeal. The news sent jitters across financial markets, while the USD strength weighed further on industrial metals. LME copper gave up most of its gains from the middle of last week sparked by China credit growth. The 3M price fell more than 3.8% to below US$10,000/tonne on Friday. Aluminium also reacted to the news with prices down more than 3.5%. Although, fundamentally an escalation in Russian/Ukrainian tensions could be bullish for aluminium prices, given that Russia is a key producer.

According to reports, Indonesia has halted as many as 1,036 miners from carrying out activities as they failed to meet the work plan deadline for 2022. These miners will be temporarily barred from carrying out activities such as construction, mining, processing, refining, transporting, trading, and exploration for 60 days starting from 7th February. Companies need to obtain approval for their work plan in order to restart mining operations. However, it is still not clear exactly which commodities are affected by the suspension.

The latest CFTC data shows that speculators increased their net long position in COMEX copper, buying 5,557 lots over the last reporting week, leaving them with a net long of 24,813 lots as of last Tuesday. For precious metals, speculators increased their net long in COMEX gold by 22,341 lots, to leave them with a net long of 84,889 lots.

Agriculture

The latest CFTC data shows that money managers continued to build fresh long positions in CBOT soybean ahead of the USDA's monthly WASDE report. Managed money net longs in CBOT soybean increased by another 11,827 lots over the last reporting week. This has taken the net long position to an 8-month high of 166,315 lots. On the other hand, money managers trimmed their net long in CBOT corn by 35,219 lots to 337,332 lots. The speculative position in CBOT corn has been fluctuating around 350k lots since late November, suggesting a lack of direction.

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