Markets Commodities

Wheat, energy prices spike amid fears of fresh sanctions

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Sanctions on Russia's banking system have turbocharged a rally in the country's key export commodities, with investors speculating that Western allies could begin to target already tight wheat and energy markets.

While sanctions have not been directly applied to Russian exports, those targeting its banking system [https://www.afr.com/link/follow-20180101-p5a0ii] make it harder for the country to trade in US dollars.

Strategists believe it could only be a matter of time before sanctions begin to be levelled against Russia's key industries including wheat, oil and gas.

Sanctions could soon be targeted at Russia's key export commodities. **Bloomberg**

“I think the market is partially pricing in the risk of sanctions,” agreed ING head of commodities strategy Warren Patterson.

“Even though energy exports are excluded for now, we are seeing some disruptions.”
Buyers are already reluctant to commit to Russian oil and some banks have already imposed their own restrictions on financing Russian commodity purchases. Shipowners are also keen to avoid some cargo ports in the Black Sea.

On Monday, the price of Brent crude spiked to $US105.07 ($145) a barrel. On Tuesday, it was trading just shy of $US100 ($138) a barrel.

“If we were to see further sanctions which target energy exports, I believe that there would be significant more upside for oil prices,” said Mr Patterson. “How much would really depend on whether we see certain buyers taking advantage of heavily discounted Russian oil. I would suspect that under such a scenario, China and possibly India would increase their share of Russian oil purchases.”

Gas prices have also spiked on the recognition that supply from the east is at risk. The price of Netherlands TTF natural gas soared as much as 36.6 per cent to €125 ($193) a megawatt hour at the open on Monday. It settled through the session amid reports Russia and Ukraine had agreed to talks, which apparently concluded without a result, [https://www.afr.com/link/follow-20180101-p5a0hl] but still closed 7.4 per cent higher.

In just the last week, the price of European gas has soared 74 per cent.

Canada declared its plans to ban Russian crude oil imports, however, as an energy producer in its own right Canada is only a marginal customer of Russian output.

Meanwhile, European energy giants BP and Shell have been severing ties to Russian producers. BP announced it would exit its 19.75 per cent shareholding in Rosneft [https://www.afr.com/link/follow-20180101-p5a072] while Shell said it would cease its equity partnerships with Gazprom entities. [https://www.afr.com/link/follow-20180101-p5a0ki]

While of less significance to the global economy, wheat prices have also been sent soaring by Western financial sanctions. Russia is the largest exporter of wheat in the world and Ukraine is the fifth-largest.

"The impact of Western sanctions on Russia reverberated through markets broadly yesterday. The ramifications are wide and deep," said Tobin Gorey, Commonwealth Bank's agri commodities strategist.

"The sanctions will impede a lot of trade with Russia, and that includes agri-commodity exports."

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Last week, Chicago wheat futures jumped to their highest level since 2008. On Monday, Chicago Board of Trade wheat climbed 8.6 per cent to $US9.34 ($12.89) a bushel, just shy of reclaiming that level.

“We are, unsurprisingly, not seeing price reports from the Black Sea. At present, mostly because of the war, grain handling and loading has ground to a halt,” said Mr Gorey.

“Many traders have shut their operations in Ukraine for now. Russia is likely still willing and able but financial sanctions, and a general reluctance for shippers to be anywhere near a war zone, stand in the way.”

While it’s yet to spark immediate market concern, there is a lingering worry as to what will happen to Ukraine’s winter wheat harvest in July. “While we hope the war is over by that time, the market cannot simply presume that will be the case,” said Mr Gorey.

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