

## Commodities news is dominated by strengthening oil and volatile gas prices

Oil prices have strengthened over the summer as fundamentals tighten, whilst natural gas prices have been volatile, with potential strike action in Australia leading to LNG supply uncertainty. Chinese concerns are weighing on metals, but grain markets appear more relaxed despite the collapse of the Black Sea deal



We expect the tight oil environment to persist through much of 2024

### Oil market tightness to persist

Oil prices have strengthened over the summer, with ICE Brent convincingly breaking above US\$80/bbl. The strength in the flat price has coincided with strength in time spreads, reflecting a tightening in the physical oil market. OPEC+ cuts, and in particular additional voluntary cuts from Saudi Arabia, mean that the market is drawing down inventories. We expect this trend will continue until the end of the year, which suggests that [oil prices still have room to move higher](#) from current levels.

While the fundamentals are constructive, there are clear headwinds for the oil market. Firstly, it is becoming more apparent that the Fed will likely keep interest rates higher for longer and that, along with renewed USD strength, is a concern for markets. Secondly, Chinese macro data

continues to disappoint, raising concerns over the outlook for the Chinese economy and what this ultimately means for oil demand. That said, up to now, Chinese demand indicators remain pretty strong.

We expect the tight oil environment to persist through much of 2024 with limited non-OPEC supply growth, continued OPEC+ cuts and demand growth all ensuring that global inventories will decline. However, we could see some price weakness in early 2024, with the market forecast to be in a small surplus in the first quarter of next year before moving back into deficit for the remainder of 2024, which should keep prices well supported.

The risks to our constructive view on the market (other than China demand concerns) include further growth in Iranian supply despite ongoing US sanctions and a possible easing in US sanctions against Venezuela, which could lead to some marginal increases in oil supply.

## Supply risks plague the natural gas market

The European natural gas market has behaved in a volatile manner over the summer. This was sparked by prolonged maintenance in Norway, significantly reducing gas flows into Europe. In fact, further maintenance in Norway again saw gas flows declining more recently. There's also been concern over Australian LNG supplies, with workers threatening to go on strike. Potential strike action would have put supply at three facilities at risk, which make up around 10% of global LNG supply.

These LNG supply risks have eased somewhat with unions and the Woodside company coming to an agreement for workers at the North West Shelf facility. However, negotiations are still ongoing at two other facilities operated by Chevron. These have a combined capacity of 24.5mtpa, around 6% of global supply. This is clearly still a risk to the market, particularly if we see a prolonged strike that would affect all of this capacity and if it runs deep into the Northern Hemisphere winter.

Australia is not typically a supplier of LNG to Europe. However, reduced LNG supply would mean that Asian buyers would look elsewhere for alternative supply, increasing competition with European buyers. This is an upside risk to European gas prices, particularly if it were to occur over the heating season. European gas inventories naturally decline over the winter, with demand basically doubling over these months. If the LNG supply, which Europe is more reliant on now, is also reduced, inventories would fall quicker through winter.

That said, Europe is in a comfortable situation in the near term. Despite Norwegian disruptions, storage has filled up at a good pace and is, in fact, 92% full already. This is above the 79% seen at the same stage last year. It also means that the EU has hit the Commission's target of having 90% storage by 1 November, more than two months before the target date. We believe that Europe will go into the 2023/24 winter with storage basically at 100%. [This suggests that in the short term, we will need to see European gas prices weaken and trade at a discount to Asian LNG](#). This is to ensure that LNG flows are diverted from Europe. Only when Europe starts drawing down storage during the heating season will we see further upside for prices.

## China concerns weigh on industrial metals

It has been a summer of downward pressure for most metals. Renewed strength in the US dollar and a growing view that maybe the Fed has more work to do when it comes to monetary tightening has provided some strong headwinds to the metals complex.

However, it is [weakness in China which has been the key catalyst for the sell-off seen in most metals](#). The property sector remains weak, with housing starts and residential floor space sold still in deep contraction, whilst new home prices have started falling once again month-on-month. In addition, China's manufacturing PMI remains in contraction territory. These are two important sectors for metals demand which are clearly struggling. Meanwhile, retail sales in China, which helped to support growth earlier in the year, are also weakening. Metal markets are likely to continue to be largely dictated by developments in China. However, it is difficult to see a swift recovery in China's property sector.

A number of base metal markets also appear to be more comfortable in terms of supply, at least in the prompt market. This is evident with the cash/3M spreads for aluminium, copper and zinc having all weakened recently and trading in contango. In addition, these three metals have seen inventory levels in LME warehouses growing over at least the last month.

## Black Sea grain disruptions & Indian food protectionism

It has now been more than a month since [Russia decided to pull out of the Black Sea Grain Initiative](#), which allowed the safe passage of grains from three Ukrainian Black Sea ports. Unsurprisingly, grain markets reacted strongly to the initial news. However, they have since given back all the gains made following the deal's collapse despite Russia attacking grain terminals along the Danube.

Ukrainian grain exports under the Black Sea deal were significant and helped both Ukrainian and global markets. However, in addition to exporting from Black Sea ports, Ukraine also increased export volumes from the Danube by rail and road. Therefore, even if we aren't seeing exports under the deal, Ukraine can still export to the world market, although admittedly with smaller volumes.

However, what has really provided comfort to grain markets, particularly corn, is that supply growth elsewhere should ensure that global markets are comfortable. Both the US and the EU are expected to see strong growth in corn supply over the 2023/24 season. This means that 2023/24 global ending corn stocks will still increase if we are to lose similar volumes of Ukrainian corn as exported under the grain deal last season. The global wheat market is more vulnerable to supply disruptions, but assuming no significant supply disruptions elsewhere, the market should be able to absorb potential Ukrainian losses.

While the reaction of grain markets to the end of the grain deal was short-lived, we are still seeing another round of food protectionist measures taken by some governments. This is most evident in India. Last year, the government banned wheat exports and more recently, it's also restricted some rice exports. There are also suggestions that the government could ban sugar exports over the 2023/24 season, whilst there are reports that the government could also scrap an import duty on wheat. Part of these domestic food security concerns are due to the impact that El Nino is having on the Indian monsoon this season. And the government may also feel it has to take action to ease food prices with an election next year. However, for global markets, these measures risk pushing some agricultural prices higher.

## Author

### Warren Patterson

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

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