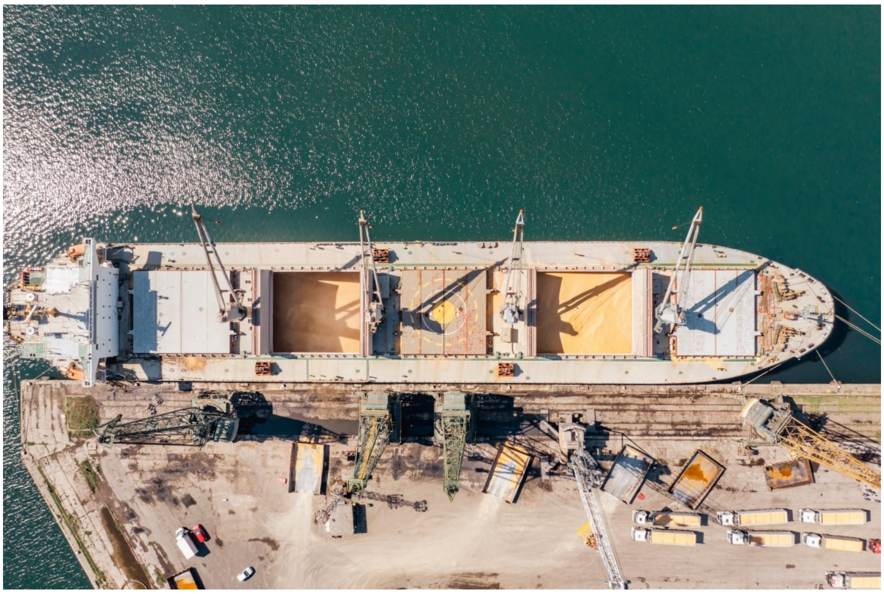
The Commodities Feed: Black Sea Grain deal ends

Chinese data weighed on most of the commodities complex yesterday, raising further demand concerns. Even grain markets settled lower, having rallied initially on the back of Russia pulling out of the Black Sea Grain deal



Russia has pulled out of the Black Sea Grain deal

Energy – Norwegian gas flows recover

Yesterday's price action in oil following the release of weaker-than-expected Chinese GDP numbers demonstrated well that demand is still the key concern for the oil market. This is particularly the case when it comes to China, given it makes up the bulk of expected demand growth this year. However, as we pointed out in yesterday's note, drilling deeper into the numbers suggests oil demand in China over June was fairly strong with implied demand growing almost 14% year-on-year. Despite the stronger demand and higher refinery run rates, China still managed to add around 2MMbbls/d of crude oil to inventories over the month – the largest build since May last year.

The Energy Information Administration (EIA) released its latest drilling productivity report yesterday, in which it forecasts that US shale oil production will fall in August by 18Mbbls/d month-on-month to 9.397MMbbls/d. The decline is set to be driven by Eagle Ford and the Permian. Given the slowdown in drilling activity since December last year, it shouldn't be too surprising that it will have an impact on supply growth. In addition, the EIA also reported that the number of drilled but uncompleted wells (DUCs) fell by 24 over June to 4,804, the lowest since June 2017.

European gas prices came under further pressure yesterday with TTF falling more than 3% to leave prices trading a little over EUR25/MWh. This is after maintenance work at the Nyhamna gas processing plant in Norway finished over the weekend, allowing for Norwegian gas flows to Europe to recover. Norwegian gas flows are back above 320mcm/d, which is the highest level since mid-April. There is a fair amount of further maintenance scheduled for August, which will likely see flows reduce once again. But for now, the resumption of flows has helped European storage build at a quicker pace in the last few days. EU storage is now almost 82% full, well above the five-year average of almost 67% full for this time of year. In the absence of any unexpected supply disruptions, the EU will fill storage well ahead of the next heating season.

Agriculture – Russia pulls out of the Black Sea Grain deal

The Black Sea Grain Initiative expired yesterday with Russia not willing to agree on a further extension of the deal. The news saw CBOT wheat at one stage trade more than 4% higher on the day. However, prices eventually settled down on the day. While the end of the deal is certainly supportive of grain prices – given that Ukraine was expected to make up around 10% of global corn exports and around 5% of global wheat exports – we do not believe it will mean significantly higher prices. Supply growth elsewhere this season means that even if we were to lose all corn exports from Ukraine (19.5mt), global corn ending stocks for 2023/24 would be under 2mt less than 2022/23.

For wheat, the impact would be more meaningful if all Ukrainian wheat exports (10.5mt) were lost, as this would leave 2023/24 global ending stocks more than 13mt lower than 2022/23 and at their lowest levels since 2014/15. However, this is a worst-case scenario. In reality, we will not lose all Ukrainian export volumes, given that we will see a pick-up in flows via the Danube and through the EU. Admittedly though this would be a more expensive route, whilst capacity constraints may be an issue.

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