The Commodities Feed: Black Sea grain deal suspended

It's not surprising that wheat and corn opened higher this morning after Russia suspended the Black Sea grain deal over the weekend. Meanwhile, markets will be focused on the outcome of the FOMC meeting later this week and looking for any hints or signals that the Fed may slow the pace of rate hikes in upcoming meetings

Energy - oil set to end the month higher

The oil market has seen quite a bit of strength over October and is set to finish the month higher, after four consecutive months of declines. Announced OPEC+ supply cuts have provided support to the market at a time when there is plenty of demand uncertainty. OPEC+ supply cuts are set to start tomorrow which should see 1.1MMbbls/d of supply taken off the market. In addition to this, there is still plenty of uncertainty over the full impact of the EU ban on Russian seaborne crude oil, which comes into force on 5 December. Clearly, it is constructive for the market, but how constructive will depend on how much more Russian oil the likes of China and India can absorb.

Speculators have been more positive on the market over the last month. The latest positioning data shows that speculators increased their net long in ICE Brent by 28,574 lots over the last reporting week - to leave them with a net long of 205,451 lots as of last Tuesday, which is the largest position speculators have held since June. Looking further at ICE Brent positioning data and focusing on commercial positioning shows that producers have been fairly active in hedging over the last couple of months. The gross producer short in ICE Brent stood at 1.21m lots as of last Tuesday, up from 978k lots in early September. This increased producer hedging could be driven by growing uncertainty over the demand outlook. Although, it is worth pointing out that the gross producer short is still well below levels seen pre-2022.

As for the calendar this week, ADIPEC kicks off in Abu Dhabi today, which will continue through until Thursday. Speakers at the event will include a number of OPEC oil ministers and so expect plenty of noise around the market outlook and also more comments and views on the recent OPEC+ supply cuts. However, the event this week which could have the biggest impact on the oil market is the FOMC meeting. Expectations are that the Fed will hike interest rates by 75bps. However, the market will also be eager for any signals on what the Fed could do at its December meeting. There is a growing expectation that the Fed could slow the pace of hikes In December. Any hints from the Fed of a slowing in the pace of hikes would likely provide some support to risk assets, including oil.

Metals – Glencore's production falls, cuts guidance

Glencore reported lower production in Q3 for half the commodities it mines and lowered full-year guidance on zinc, nickel and coal. The company cited extreme weather in Australia, industrial action at nickel assets in Canada and Norway, and supply chain issues in Kazakhstan caused by Russia's war in Ukraine. Glencore's copper production fell 14% YoY to 770.5kt, while zinc output fell 18% YoY to 699.6kt in the first nine months of the year. The company reduced zinc production guidance to 945kt for the year, compared to its previous guidance of 1.01mt due to the emerging supply-chain issues due to Russia-Ukraine war.

In ferrous metals, the most active contract for iron ore trading on SGX is on course for five consecutive sessions of declines with prices trading down to an intra-day low of US$75/t this morning- the lowest levels since September 2020. The raw material prices are already down more than 50% from the recent highs of US$171/t seen in March this year. The extended weakness in China's property sector along with the nation's Covid restrictions is weighing on steel consumption at a time when ex-Chinese demand is also bleak due to tighter monetary policy and a worsening energy crisis in Europe. Over the coming weeks, potential winter output curbs in China would result in rising stockpiles of iron ore, further weighing on the prices. Meanwhile, Baoshan Iron & Steel Co., the world's largest steelmaker, highlighted a weak outlook for the steel industry in China last week and forecasts that steel demand in the country could fall 5% this year. Chinese manufacturing PMI data for October, which was released this morning will certainty not help with the PMI falling from 50.1 to 49.2 - leaving it in contraction territory.

Agriculture - Russia suspends Black Sea grains export deal

It's no surprise that CBOT wheat and corn opened significantly higher this morning after Russia suspended the Black Sea grains export deal, following attacks on Russian navy vessels in the Black Sea. The latest data from the UN shows that a little over 9.3mt of grains and foodstuff have been exported from Ukraine under the deal since August. However, around 2.65mt of this is still awaiting inspection and its unclear what will happen to these cargoes now. The deal was originally set to expire on 19 November, but there was hope that it would be extended. We will need to see if involved parties can somehow put the deal back on track, but clearly there is the very real risk that Ukrainian grain exports see a significant slowdown due to these latest developments. Previously, Ukraine's Grain Association had said that Ukraine could export 50mt of grains if the deal was prolonged, without it the maximum volume would likely be around 35mt.

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