The Commodities Feed: Brent settles below $80

The oil market came under further pressure yesterday with sentiment turning increasingly negative. Fundamentals are proving not to be as constructive as expected in the short term. However, we still see higher prices through 2024

Energy - Brent below $80/bbl

The downward pressure in oil continued yesterday with ICE Brent settling more than 2.5% lower, leaving it below US$80/bbl. This is the first time since July that Brent has settled below this level. A lot of support has evaporated after the market broke below the 200-day moving average earlier this week. Timespreads also continue to point towards weakness. The prompt ICE Brent spread is dangerously close to flipping into contango and is trading in a backwardation of just US$0.13/bbl, down from around US$0.60/bbl earlier this month. Meanwhile, for WTI, the prompt spread is in even bigger danger of slipping into contango with the spread trading flat this morning.

The degree of weakness seen in recent days will be a concern for OPEC+, particularly as we move into 1Q24, a period where we see the market returning to surplus in the absence of an extension to Saudi cuts. Noise from the group, particularly Saudi Arabia will likely grow, given that we are now trading below the Saudi's fiscal breakeven level, a level they have been keen to keep oil above. It is looking very likely that both Saudi Arabia and Russia will extend their additional voluntary cuts through into early next year. Although, whether Russia actually sticks to its announced cuts is another story, given that their seaborne crude oil exports have been edging higher in recent months.

The demand side is also becoming a concern, which is evident with the broader weakness seen in refinery margins since the end of the northern hemisphere summer. Weaker margins suggest possibly weaker end-use demand, which ultimately could feed through to weaker crude oil demand from refiners. In addition, there are worries over Chinese demand going into the winter, though for much of the year, while there has been concern about the Chinese economy, oil demand numbers have performed strongly up until this point.

While indicators suggest that the market is not as tight as originally expected, the tightness we see in the market next year (particularly 2H24) and the high likelihood of further intervention from OPEC+ (or at least from some of its members) if needed, suggests that significant further downside in the market is limited. We hold onto our forecast for Brent to average US$90/bbl over 2024.

Turning to the gas market, we are finally starting to see EU gas storage falling, although at a very slow pace. Storage has fallen from 99.63% full on Sunday to 99.61% as of Tuesday. This decline will obviously pick up as we move deeper into the heating season. However, assuming a normal winter, the expectation is that storage will still finish the heating season above the 5-year average. Gas demand from the power sector has been weak this year, and this is likely to remain the case through the winter with spark spreads remaining in negative territory. Weaker demand from the power sector should help the EU balance over the winter months.

Metals – Zinc tightens

LME zinc led gains among industrial metals yesterday with prices trading above $2,600/t amid signs of tightening supply. Recent LME data show that cancelled warrants for zinc rose by 6,125 tonnes to 24,925 tonnes yesterday, the highest since 25 October. Cancelled warrants for zinc have climbed by almost 80% this week. Meanwhile, on-warrant stocks for zinc also reported outflows of 7,800 tonnes and the continuous rise in cancelled warrants might result in potential further outflows. The tightening has seen the cash/3m spread contango narrow to just US$4.25/t compared to around a US$30/t contango back in early October.

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