The Commodities Feed: Further Saudi cuts

The oil market initially moved higher after Saudi Arabia announced a rollover of its additional supply cuts into August. However, the market failed to hold onto its gains with these cuts already largely expected

Energy - Further oil supply cuts

It was not too surprising that Saudi Arabia decided to roll over its additional voluntary cuts of 1MMbbls/d from July into August. The market was largely expecting it, particularly in an environment rife with negative sentiment. However, what was more surprising was Russia announcing that they would reduce exports by 500Mbbls/d in August and also aim to reduce output by the same amount. Furthermore, Algeria will also make a further cut of 20Mbbls/d in August. The market initially reacted positively to the news, however, the gains were short-lived with Brent settling a little over 1% lower on the day. As mentioned, the Saudi cut was largely expected, and in fact, failing to roll over the cut would have put further downward pressure on the market. This leaves the Saudis in a difficult spot for the next few months, as they will have to be careful how they wind down this supply cut in the current environment. Although the Russian announcement was a surprise, there will be doubts within the market over whether Russia will actually make the cuts or not. Their track record this year has not been great. Russia supposedly cut supply by 500Mbbls/d earlier in the year. Yet seaborne crude oil exports from Russia have been above pre-war levels for much of this year.

The price action yesterday is also a good illustration of what is driving oil prices at the moment. Fundamentals are not having as much influence on price direction as one would expect. Instead, the uncertain macro outlook is what the market is focused on. And it is difficult seeing this pattern changing significantly in the short term, though the additional cuts do put a stronger floor in place for Brent at around US$70/bbl. Therefore, we can expect the rangebound trading that we have become accustomed to will continue in the short term.

Metals – ample copper ore supply lifts treatment charges in China

Some major copper smelters in China have agreed to pay higher treatment charges for some term copper concentrate supplies from Antofagasta Plc for next year, Bloomberg reported. Treatment charges for 2024 were set at US$88/t for as much as half of concentrate term supplies for the companies, much higher than the US$76/t signed for similar contracts for this year. This is aligned with the higher spot treatment charges we have been seeing and suggests a looser concentrate market.

In zinc, the latest LME data shows that total on-warrant stocks reported outflows of 5,050 tonnes (the biggest daily outflow since 7 December) to 63,275 tonnes yesterday. Most of the decline came from warehouses in Singapore and Malaysia. Meanwhile, cancelled warrants for copper rose by 4,500 tonnes to 17,000 tonnes as of yesterday, the highest since the end of December.

Recent reports from Mysteel suggest that steel mills in Tangshan City, a steel-producing hub in China, will limit steel production in July amid worsening air quality. Eleven steel mills with the higher environmental protection performance rating in the region are required to cut their output by 30% during the period. Meanwhile, steel companies with a lower performance rating are expected to cut their production by 50% in July.

Agriculture – Black Sea Grain Initiative nears expiry

As per the recent reports, the UN stated that no new vessels have been allowed to join the Black Sea Grain Initiative since 26 June, despite numerous appeals from the Joint Coordination Centre (JCC). Meanwhile, recent data from the JCC show that the Ukrainian crop shipments (under the grain deal) fell 23% WoW for the week ending 2 July. The grain deal expires in mid-July and there are concerns that Russia may not be willing to renew.

The latest Crop Progress report from the USDA shows that the condition of the US corn crop remains poor. Last week, 51% of the crop was rated good to excellent, this is up from 50% the previous week, but still below the 64% seen at the same stage last year. The US soybean crop saw a further deterioration over the week with 50% rated good to excellent. This is down from 51% the previous week and well below the 63% seen at the same stage last year. This should provide some further support to soybeans, particularly after the bullish acreage numbers released last week.

In its latest report, the European Commission estimates that the EU's sugar production will reach 15.5mt in 2023/24, up from 14.6mt produced in 2022/23. The increase is driven by expectations of both stronger yields as well as a larger planted area. The EU sugar balance has been extremely tight in 2022/23 and so expectations for higher output in 2023/24 should see ending stocks edging higher in the next marketing year, which suggests that European prices could start to ease.

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