

The Commodities Feed: Growing oil deficit

The oil market rallied yesterday on the back of a constructive OPEC report. Today, all attention will be on the IEA's monthly oil report and whether the agency shares the same view as OPEC



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Energy - OPEC sees large deficit

The oil market continued its move higher yesterday. ICE Brent rallied by almost 1.6% taking it above US\$92/bbl and trading to its highest level since November last year. The catalyst for the move was a bullish monthly report from OPEC. The group's numbers suggest that the oil market could see a deficit of more than 3MMbbls/d over the fourth quarter of this year. These numbers will cause some to question OPEC's claims that their main objective is to keep the market balanced as their own numbers clearly do not show this. However, the actual balance could end up looking very different, given that there is still plenty of uncertainty over demand. In addition, we have seen Iranian and Venezuelan output edging higher this year and there is the potential for at least Iranian supply to continue rising despite US sanctions.

Higher prices are likely to lead to increased political pressure, particularly given that there are elections in a number of countries next year, including key oil consumers, the US and India. It may

be difficult for the US government to allow further releases from its strategic petroleum reserves (SPR), but we are likely to see the government taking a pause in refilling the SPR after the large releases seen last year. In addition to this, the US is likely to be less strict in enforcing sanctions against Iran. Already, in recent months this appears to be the case.

The EIA released its latest Short-Term Energy Outlook yesterday in which they slightly revised higher their US crude oil production estimates. The EIA expects US output to grow by around 880Mbbbls/d YoY to a record 12.78MMbbbls/d this year, while for 2024, supply is expected to grow by a more modest 370Mbbbls/d to 13.16MMbbbls/d. However, given the slowdown that we have seen in drilling activity for much of this year, it might be a challenge to hit these estimates.

Overnight, the API released US inventory numbers, which were more bearish. US crude oil inventories increased by 1.17MMbbbls over the week, whilst gasoline and distillate stocks increased by 4.2MMbbbls and 2.59MMbbbls respectively.

Today, the IEA will release its latest monthly oil market report. The market will be eager to see their latest forecasts, particularly after OPEC's numbers. This release will be followed by the EIA's usual US inventory numbers.

Agriculture – USDA projects larger US corn supplies

In its latest WASDE, the USDA estimates 2023/24 US corn production to rise by 23m bushels to 15.134bn bushels as a sizable harvest offsets falling yields. As a result, 2023/24 ending stock estimates were increased by 19m bushels to 2.2bn bushels. For the global balance, 2023/24 ending stock estimates were increased from 311.1mt to 314mt, primarily due to higher beginning stocks and rising supply.

For soybeans, the USDA slashed its 2023/24 US production estimate from 4,205m bushels to 4,146m bushels due to falling yields. Lower beginning stocks and output mean that US ending stocks were cut from 245m bushels to 220m bushels. The global soybean balance saw 2023/24 ending stocks lowered marginally from 119.4mt to 119.3mt. Lower US supplies were largely offset by reduced demand.

Finally, for wheat, the USDA lowered its global ending stocks estimate by 7mt to 258.6mt for 2023/24. The agency expects 2023/24 global wheat production to slide by 6mt to 787.3mt, due to lower production from Australia (-3mt), Canada (-2mt), Argentina (-1mt) and the EU (-1mt). The USDA left the US wheat balance largely unchanged.

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