The Commodities Feed: Iranian oil flows edge higher

The oil market continues to face headwinds, both on the macro front and on the back of expectations of supply increases. Meanwhile, the natural gas market could see further volatility over the coming days with a deadline for labour talks at some LNG facilities approaching

Energy - Deadline Day for some Australian LNG talks

The rally in oil appears to have run out of steam for now. China's macro issues, along with a growing expectation that maybe the US Fed is not done with its tightening cycle have weighed on oil more recently. In addition, the broader strength in the USD will be providing some headwinds.

Fundamentally, the outlook for the market is still constructive with large deficits to persist for the remainder of the year. However, there is some noise around growing supply, specifically from Iran. Iran has quietly increased its output by around 400Mbbls/d over the last year to a little over 2.9MMbbls/d, which is the highest level since late 2018. Iran has said that it will look to increase output to around 3.4MMbbl/d by the end of summer, which would leave it close to pre-sanction levels of 3.8MMbbls/d. Given much of the focus has been on Russian flows since the war, Iran has taken advantage of this to increase oil exports. This comes against the backdrop of apparently greater willingness between the US and Iran to improve diplomacy, evident with a recent deal for a prisoner swap and the release of frozen Iranian funds.

There is also further noise around the potential restart of Iraqi oil flows via the Ceyhan export terminal in Turkey. The flows were halted back in March after a court ruled in favour of the Iraqi government, which claimed that these oil flows from the Kurdish region were happening without its consent. Iraqi and Turkish officials have been meeting this week with the hope of resuming the roughly 500Mbbls/d of crude oil that flows via this route.

API numbers released overnight show that US crude oil inventories fell by 2.4MMbbls, slightly less than the roughly 3MMbbls draw the market was expecting. Crude oil stocks at Cushing continue to decline, having fallen by 2.1MMbbls over the week. For refined products, gasoline inventories grew by 1.9MMbbls, while distillate stocks edged lower by 153Mbbls. The more widely followed EIA report will be released later today.

Natural gas markets should get more clarity around Australian LNG supply over the next 24 hours, given that end-of-day Wednesday is the deadline that workers at Woodside's North West Shelf gave to come to a deal. As a result, we could see further volatility in natural gas prices for the remainder of the week. We should also get more clarity on how negotiations at Chevron's Gorgon and Wheatstone are developing later this week.

Metals – Global steel output rises

The latest data from the World Steel Association (WSA) show that global steel production rose 6.6% YoY to 158.5mt in July, as rising output in China, India and Russia offset lower production from Europe. However, cumulative global steel output remained almost flat at 1,103mt in the first seven months of the year. Meanwhile, Chinese steel production reported a significant rise of 11.5% YoY to 90.8mt in July, while output in India and Russia also rose 14.3% YoY and 5.8% YoY respectively. In contrast, monthly crude steel output in the EU fell 7.1% YoY to 10.3mt last month.

The International Copper Study Group's (ICSG) latest update shows that the global copper market remained in a supply deficit of 90kt in June. However, the ICSG estimates an apparent surplus of 213kt in the first half of the year following higher output from China and the DRC, compared to a deficit of 196kt during the same period last year. Global mine and refined copper production increased by 2% YoY and 7% YoY, respectively, while overall apparent refined demand increased by 4% YoY in 1H of 2023.

In aluminium, recent LME data shows that on-warrant stocks for aluminium witnessed inflows for a second day. On warrant stocks increased by 38,000 tonnes to 246,575 tonnes yesterday, the largest increase since April. Meanwhile, total exchange inventories rose by 38,725 tonnes to 529,775 tonnes yesterday, the highest since 13 July.

Agriculture – Crop tour sees higher yields

Reports from the Pro Farmer Midwest crop tour for corn and soybean look promising. The tour reported South Dakota corn yields to be around 157.4bu/acre this year (based on 91 samples), much higher than the 118.45bu/acre from a year ago and the 3-year average of 149.71bu/acre. As for the soybean crop, the pod count average in South Dakota is seen at 1,013, higher than 871.4 pods from last year but slightly below the three-year average of 1,039.71 pods. Meanwhile, reports from Ohio estimate corn yields at 183.94 bu/acre (based on 118 field samples), compared to 174.17 bu/acre a year ago and the 3-year average of 175.64 bu/acre. Soybean pods in Ohio were seen averaging 1,252.93, above the 1,131 pods reported last year and the 3-year average of 1,161 pods.

The latest data from the Uganda Coffee Development Authority shows that Uganda's coffee exports rose 14.5% MoM and 12% YoY to 645,832 bags (60kgs bag) in July. Last month's shipments were the highest monthly total in over a year due to the attractive global prices and a good crop in the southwestern region.

Weekly data from the European Commission shows that soft wheat exports for the season so far fell 21% YoY to reach 4.06mt as of 20 August, down from 5.12mt for the same period last year. Meanwhile, EU corn imports stand at 2.12mt, down 35% from a similar period a year ago. The EU is expected to see a recovery in its domestic corn output this season, which should reduce its import needs.

Authors

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com