The Commodities Feed: Libyan force majeure

Protests at Libya’s largest oil field have resulted in force majeure being declared on these supplies. This supply disruption and the geopolitical situation in the Middle East continue to provide support to the oil market

Source: iStock

Energy - Libyan force majeure

The oil market managed to settle higher last week with Brent up 2.23% over the first trading week of 2024. Middle East tension and Libyan supply disruptions provided a boost to oil prices. Though with the oil balance fairly comfortable over the first half of 2024, significant upside is likely limited (assuming no escalation in the Middle East).

The more comfortable market is also reflected in Saudi Arabia's latest official selling prices (OSPs) for February loadings. Cuts were seen across the board with the flagship Arab Light into Asia cut by US$2/bbl MoM to leave it at US$1.50/bbl over the benchmark. The decrease was larger than the market was expecting. OSPs for all grades into Europe, the Med and the US were also cut for February.

After protests last week forced Libya to shut the Sharara oilfield (the largest in the country), Libya's National Oil Corporation has now declared force majeure on supplies from the field. The shutting of the oil field saw total Libyan oil output fall from around 1.2m b/d to 981k b/d on Friday. According to S&P Global Commodity Insights, the nearby El-Feel field which has a capacity of 70k b/d was also shut last week.

The latest positioning report shows that speculators reduced their net long in ICE Brent over the last reporting week by 29,532 lots to 169,843 lots as of last Tuesday. This move was predominantly driven by fresh shorts entering the market, with the gross short increasing by 28,578 lots over the week. Meanwhile, speculators also reduced their net long in NYMEX WTI by 35,869 lots over the period to 89,330 lots. This reduction was also driven by fresh shorts entering the market. However, given the increase we have seen in prices since Tuesday, we could have seen some of these shorts covered already.

There is not a tremendous amount on the energy calendar this week. Apart from the usual weekly inventory reports, the EIA will publish its latest Short-Term Energy Outlook, which will include its latest US oil production forecasts for 2024 and its first forecasts for 2025. Last month the EIA forecast that 2024 US output would grow by around 190 b/d to 13.11m b/d. US output has surprised to the upside in recent months, which has contributed to the broader weakness seen in the oil market. And then on Friday, China will release its first batch of trade data for December, which will include oil imports.

Metals – Iron ore declines on softer seasonal demand

Iron ore extended declines for a second consecutive day on Friday on softer demand, with prices in Singapore down more than 1% last week. Iron ore was the best-performing industrial metal last year with prices rising by around $40 since early August amid optimism around China's recovery and support for the country's property sector. Iron ore prices are set to remain volatile as the market continues to respond to any policy change from Beijing with any further recovery in prices dependent on economic stimulus from China. The downside risk for 2024 is if the stimulus effect is weaker than expected. A seasonal lull in demand has pushed iron ore port inventories in China to the highest level since the week ending September 1, 2023. Iron ore port inventories in China have seen seven consecutive weeks of increases, growing by 1.5mt over the last week to 116mt. However, historically stocks are still low for this time of year.

Steel inventories at major Chinese steel mills fell to 12.4mt in late December, down 17.7% compared to mid-December, according to data from the China Iron and Steel Association (CISA). Crude steel production at major mills fell 14% from mid-December to 1.67mt/d in late December, as some major steelmakers, including Baowu Steel Group, Shougang Group, HBIS Group and CITIC Pacific Special Steel Group had conducted maintenance works on multiple production lines during the period.

Agriculture – Nigeria's cocoa output to fall

Nigeria's National Cocoa Association expects the domestic cocoa production for 2023/24 to fall to 240kt, compared to 270kt reported in the previous season. It is believed that heavier-than-usual rains have damaged cocoa trees and led to an outbreak of black pod disease, while also causing flooding in some of the cocoa-producing states.

The USDA released its weekly export sales report on Friday showing that grain shipments remained weak for the week ending 28 December. Weekly export sales of corn came in at 367.3kt, down from 1,253.3kt a week ago. For soybeans, the agency reported that US export sales fell to 202.2kt, lower than the 983.9kt a week ago. Similarly, US wheat export sales fell to 135.9kt; compared to 318kt a week ago.

The latest Commodity Futures Trading Commission (CFTC) data shows that money managers increased their net bearish bets in CBOT corn by 19,700 lots over the last week, leaving them with a net short position of 197,326 lots as of 2 January. Similarly, speculators increased their net short in CBOT wheat marginally by 718 lots to 60,277 lots as of last Tuesday. Meanwhile, money managers flipped from a net long of 4,767 lots in CBOT soybeans to a net short of 11,629 lots - a move which was driven largely by fresh shorts entering the market.

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