

The Commodities Feed: Libyan oil supply disruption

Oil prices moved higher yesterday on reports that Libyan oil output will be halted, while the European gas market strengthened due to Russian attacks on Ukrainian energy infrastructure



Energy – Oil rallies on Libyan disruption

Oil prices broke back above US\$81/bbl yesterday, rallying more than 3%. This is after reports that Libyan oil production will be halted due to political fighting. The internationally recognised Tripoli-based government wants to replace the current governor of the central bank. However, the unrecognised Eastern Libyan government backs the current governor, and in what appears to be a negotiating tactic has threatened to stop oil production, which is largely based in the east. This is important for the oil market as Libya produces between 1.1- 1.2m b/d. How significant it is for prices will depend on the duration of the stoppage. A prolonged outage will leave the market in a deeper deficit. This will not only be supportive for flat prices and time spreads but also for the Brent-Dubai spread, given that Libya produces a light sweet crude oil. The Brent/Dubai spread was already set to widen as we move towards the end of the year and through 2025 if OPEC+ were to stick to the plan of gradually unwinding supply cuts.

European natural gas prices had a fairly volatile day yesterday, initially trading lower, but TTF

managed to finish the day up 2.15%. This is after Russia carried out attacks on Ukrainian energy infrastructure, which included gas compressor stations. The attacks do not appear to have had an impact on flows to Europe. In addition, Norwegian gas flows to Europe have started to edge lower as scheduled maintenance work gets underway. The market will be following this maintenance closely and will be sensitive to any overruns.

Metals – Gold surges

Gold continued its upward trend on Monday with spot prices closing at a record high as the market digested Fed Chair Powell's Jackson Hole speech. The persistent geopolitical risks, the broader weakness in the USD and lower treasury yields continue to be supportive. The speculative net long in COMEX gold also reached its highest level in more than four years, according to recent data from the Commodity Futures Trading Commission (CFTC).

Steel inventories at major Chinese steel mills rose (after falling for two consecutive weeks) to 16.5mt in mid-August, up 3.5% compared to early August, according to data from the China Iron and Steel Association (CISA). Crude steel production at major mills declined marginally by 0.5% from early August to 1.99mt/d in mid-August, as weak demand weighed on mills operating margins.

Agriculture – EU lowers grain yield estimates

In its monthly crop monitoring Mars report, the European Commission estimates that corn yields could drop to 7.03t/ha from a previous projection of 7.24t/ha, which is also below the five-year average of 7.35t/ha. Dry weather conditions and lower rainfall in the Southern region of Europe weighed on corn yields. Similarly, wheat yield estimates fell to 5.47t/ha, compared to 5.65t/ha in July. Frequent rains in parts of the Western and Northern regions continue to impact crop quality and yield expectations.

CBOT corn extended losses for a third consecutive session yesterday and reached its lowest level since September 2020, following the prospect of improving yields in the US. The most active contract of corn trading on CBOT fell more than 1% to close at US\$387.5/lb yesterday. Recent estimates from the 2024 Pro Farmer's crop tour suggest that average US corn yields were about 181 bushels/acre, which would be a record high if realised.

The latest crop progress report from the USDA shows that the US corn crop continues to remain in good condition with 65% of the crop rated good-to-excellent, up from 56% at the same stage last year. Similarly, 67% of the soybean crop is rated good to excellent, compared to 58% at the same stage last year.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.