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 USc387.5/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.

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