

The Commodities Feed: Oil cuts and LNG supply risks

The oil market continues to move closer to US\$90/bbl. A possible rolling over of Saudi cuts could see it finally break this level. Gas markets will get some more clarity this week on Australian LNG with workers at 2 facilities set to go on strike as soon as this Thursday if unions and Chevron fail to come to a deal



Energy - Saudi oil cuts

The oil market had a strong week last week with ICE Brent managing to settle 4.82% higher, which also saw the market almost hit US\$89/bbl and trading to its highest level since January. Support would have come from growing expectations that the Fed could be done with its hiking cycle. In addition, fundamentals remain constructive with the oil market set to continue to tighten for the remainder of the year. This tightening is largely due to OPEC+ supply cuts.

However, whilst OPEC continues to cut, there are some producers within the group who continue to see output edge higher (Iran, Libya and Venezuela - these members are exempt from current supply cuts). Preliminary OPEC production data for August is starting to come through and the Bloomberg survey shows that the group increased output by 40Mbbbls/d MoM to 27.82MMbbbls/d. While Saudi output is estimated to have fallen by 130Mbbbls/d to 8.98MMbbbls/d, this was offset by

increases from Iran and Nigeria. Iranian output is estimated to have increased by 90Mbbls/d to 3.07MMbbls/d. Nigerian output increased by 80Mbbls/d to 1.34MMbbls/d.

This week the oil market will be focused on what Saudi Arabia decides to do with its additional voluntary cut of 1MMbbls/d. The Saudis will need to decide whether to roll this cut into October, let it expire at the end of September or gradually ease the cut from next month. We believe that the Saudis will likely roll over the cut into October, as they will not want to put any renewed downward pressure on the oil market, although fundamentally, the market should be able to absorb the return of these barrels, given the large deficit forecast for the rest of the year.

The latest positioning data shows that speculators reduced their net long in ICE Brent by 15,544 lots over the last reporting week, leaving them with a net long of 202,227 lots as of last Tuesday. However, given the move in the market since then, along with the increase in open interest, the actual speculative net long has likely increased.

Natural gas prices also remain fairly well supported with a combination of continued supply risks around Australian LNG as well as reduced Norwegian gas flows due to ongoing maintenance at fields. Strike action at the Gorgon and Wheatstone LNG facilities in Australia could start as soon as this Thursday if unions and Chevron do not come to an agreement.

Metals – SHFE aluminium inventories fall

SHFE data shows that aluminium inventories at exchange warehouses dropped by another 8.5kt to a 5-year low of 89.6kt last week. Among other metals, copper stocks increased by 6,006 tonnes to 46.6kt, and nickel stocks increased by 449 tonnes to 3.8kt.

Operating rates at steel blast furnaces in Tangshan China increased to 74.43% last week, the highest level in nearly six months as steel mills ramp up operations on optimism about stronger domestic demand on the back of stimulus measures by China. Beijing has been taking supportive measures to try to support the economy, including several measures to help the property sector. Meanwhile, global demand for Chinese steel also remains strong, which has supported operating rates.

The latest positioning data from the CFTC shows that managed money net longs in COMEX gold increased by 32,439 lots over the last week to 58,134 lots as of 29 August. Expectations of a rate pause by the Fed at its September meeting appear to have helped bullish sentiment for gold. The softer US jobs report on Friday will likely reinforce this view. The move higher was driven by both long additions (+22,279 lots) and short covering (10,162 lots).

Agriculture – specs buy corn and soybeans

The latest CFTC data shows that speculators were more constructive for CBOT soybeans and corn over the last week due to a slight deterioration in crop conditions. Managed money net longs in CBOT soybeans increased by 32,779 lots over the last week to 90,985 lots as of 29 August. For corn, money managers trimmed their net short position by 18,787 lots to leave them with a net short of 87,348 lots. However, speculators added to their net short in CBOT wheat, selling 8,960 lots over the last week to leave them with a net short of 79,881 lots.

Authors

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 <http://www.ing.com>.