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The Commodities Feed: Oil drops on rising supply prospects

Oil prices fell sharply on reports that OPEC members, particularly Saudi Arabia, are preparing to unwind production cuts even if it means prolonged lower prices. Meanwhile, the inventory report from the Energy Information Administration (EIA) shows a tight physical oil market in the US

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Energy – Oil sell-off continues

Oil prices continued to trade lower this morning extending yesterday's sharp decline. NYMEX WTI prices fell below US$68/bbl while ICE Brent was trading around US$71/bbl. The prospect of rising supply from Libya and Saudi weighed on oil prices, with market participants ignoring a sharp fall in weekly inventory numbers. Recent reports suggest that representatives from Libya's rival eastern and western administrations reached a "compromise" on leadership for the central bank, paving the way to a potential revival in Libyan oil production.

Meanwhile, there are suggestions that Saudi Arabia could focus on regaining the market share and start to unwind voluntary production cuts from December.

Recent reports suggest that BP Plc has experienced delays in restarting its Europoort oil refinery in Rotterdam following a power outage earlier this month. It is reported that a power recovery turbine was damaged on 3 September, however repairs have now been completed and took about two weeks. The refinery has two main crude processing units with a capacity of 400k bbl/d.

Metals – Steel inventories in China continue to rise

Steel inventories at major Chinese steel mills rose for a second consecutive week to 15.7mt in mid-September, up 4.5% compared to early September, according to the China Iron and Steel Association. Steel inventories are almost at the same level as last year. Meanwhile, crude steel production at major mills rose by 2.7% from early September to 1.99mt/d in mid-September, as more steelmakers (including both blast-furnace mills and mini-mills) were enthusiastic about lifting production after their profit recovered.

Agriculture – Ukraine winter grain plantation slows

Ukraine’s Agriculture Ministry reported that the Ukrainian winter grains plantations fell to 944.5k hectares as of 25 September, compared to 1.1m hectares at the same period last year. The decrease was driven largely by winter wheat, where the plantation decreased to 878.8k hectares from 1m hectares over the same period last year, as an intense drought has left the planting area too dry for sowing.

Recent weather reports suggest severe frost across Australia's south and Southeast regions which contributes to around 10% of domestic wheat production. The unfavourable weather conditions could damage the wheat crops in the area that are in their final stage of growth before the harvest season (which usually starts in November). The region was initially expected to produce 3.2mt of wheat, however, that could be slashed by between 10-60% depending on the weather conditions. Total wheat production in Australia could fall below 29mt against earlier predictions of 31.8mt, after factoring in the recent frost conditions.

The latest estimates from Buenos Aires Grain Exchange show that the Argentine soybean crop could rise by 3% YoY to 52mt for the 2025 season. Similarly, wheat production could rise by 23% YoY to 18.6mt. The rise in production estimates is largely attributed to the favourable weather conditions in the country. In contrast, corn production is expected to be around 47mt, down 5.1% YoY for the abovementioned period.

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