The Commodities Feed: Oil plummets

Oil came under further pressure yesterday, trading down to its lowest level since July. Recent weakness in the market makes it increasingly likely that Saudi Arabia will roll over its voluntary cuts into early 2024

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Energy - Oil weakness increases likelihood of Saudi extension

Energy markets came under pressure yesterday with ICE Brent settling 4.63% lower, which took it below US$77.50/bbl and to its lowest level since July. There was little in the way of fresh fundamental developments behind the move. Instead, a break below US$80/bbl appears to have brought a fair amount of technical selling. Weakness in time spreads coincided with the sell-off in the flat price. In fact, the prompt ICE Brent time spread is now trading in contango, suggesting little concern over tightness in the market at least in the short term.

It has become clearer that the oil balance for the remainder of this year is not as tight as initially expected. Higher-than-expected supply has eroded a large amount of the expected deficit over 4Q23. And as things stand, the market is still expected to return to surplus in 1Q24

However, prices are trading down at levels which will raise some concerns among OPEC members, particularly Saudi Arabia. The price weakness we are seeing means that it is increasingly likely that the Saudis will roll over their additional voluntary cut of 1MMbbls/d into early next year. Doing this should help erase the expected surplus and provide some support to the market. There will be growing noise around OPEC policy in the coming weeks with the group set to meet in Vienna on 26 November.

While gasoil cracks have weakened from their high levels seen over the summer, they remain at a relatively elevated level with the prompt ICE gasoil crack trading above US$26/bbl. The middle distillate market remains tight and the recent outage at the 615Mbbls/d Al Zour refinery in Kuwait will not help. Gasoil inventories in the ARA region continue to edge lower, falling by 39kt over the last week to 1.68mt. This is the lowest level seen for this time of year in at least 10 years. It is a similar story of tightness for distillate stocks in the US. However, Asia is looking more comfortable with middle distillate inventories in Singapore edging higher since late October, leaving stocks broadly in line with the 5-year average.

Metals – LME zinc on-warrant stocks rise

LME on-warrant zinc stockpiles rose by 65,475 tonnes yesterday to 112,675 tonnes. This is the largest daily increase since March 2018. Most inflows were reported from warehouses in Singapore and Port Klang, Malaysia. Meanwhile, total exchange inventories increased by 65,075 tonnes to 133,200 tonnes as of yesterday, the highest since 12 September.

Recent data from the China Iron and Steel Association (CISA) shows that steel inventories at major Chinese steel mills rose to 14.7mt in early November, up 6.7% compared to late October. Meanwhile, crude steel production at major mills increased by 2.4% from late October to 1.97mt/d in early November, as some mills ramped up production this month amid improving profit margins and strengthening steel prices.

Agriculture – IGC raises grain production estimates

In its recent monthly update, the International Grains Council (IGC) increased its 2023/24 global corn output forecast from 1,219mt to 1,223mt on better yield prospects for US corn, while consumption projections were increased from 1,208mt to 1,213mt. As a result global ending stocks for 2023/24 were increased from 283mt to 285mt, reinforcing the view of a well-supplied global market. For wheat, the council marginally increased its global ending stock estimates from 263mt to 264mt. As for soybeans, while global production estimates were increased by 2mt to 395mt (due to higher output expectations from the US and Ukraine), ending stocks were left unchanged at 62mt for 2023/24.

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