

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



Source: Shutterstock

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.

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>.