The Commodities Feed: Oil pressure

ICE Brent fell towards US$71/bbl last week. Demand worries and weaker prices will likely be the key focus at APPEC, which gets underway in Singapore this week

Energy – Saudis cut OSP

Despite OPEC+ delaying its supply increase by two months, oil prices still had a weak finish to trading last week. ICE Brent settled 2.24% lower on Friday, leaving it just above US$71/bbl. Demand weakness and a soft oil balance in 2025 are still clearly a concern. While OPEC+ cuts leave the market a bit tighter for the remainder of this year, this doesn't resolve the surplus that is expected next year. However, prices are trading stronger in early morning trading today.

Unsurprisingly, speculators reduced their positioning in oil. Speculators cut their net long in ICE Brent by 38,427 lots over the last reporting week to leave them with a net long of 41,645 lots. This move was predominantly driven by fresh shorts entering the market. The gross short in ICE Brent is relatively large, standing at 143,759 lots. This large short leaves the market vulnerable to a short covering rallying with the right catalyst, although clearly sentiment is still very negative. In NYMEX WTI, speculators also cut their net long, reducing their position by 61,659 lots over the last reporting week to 124,868 lots.

Saudi Arabia cut its official selling prices (OSP) for all grades to all regions, highlighting concerns over the demand picture. The Saudi's flagship Arab Light into Asia was cut by US$.70/bbl to

US$1.30/bbl over the benchmark, the weakest level since November 2021.

The recent weakness in the market is very much going to be the key talking point at the APPEC week, which gets underway in Singapore this week. Weak Chinese demand is likely to dominate discussions, along with the broader weakness in refinery margins around the globe. This will naturally lead to discussions over what options OPEC+ has to try to stabilise the market. This is something that will become increasingly more difficult next year unless OPEC+ takes action to address the expected 2025 surplus. The US election and its potential impact on the oil market will likely be another theme discussed. A Trump victory could see a more hawkish US stance taken against Iran, potentially providing the opportunity for OPEC+ to unwind voluntary cuts next year.

In addition to APPEC week, which is likely to provide a lot of noise over views on the oil market, there will also be a number of data releases this week. OPEC will release its monthly oil market report on Tuesday and the market will be watching closely to see if the group makes any further revisions lower in its demand forecasts. China will also release its first batch of trade data for August on Tuesday, which will provide some more insight into how Chinese oil demand is performing. Cumulative imports over the first seven months of the year are already down 2.4% year-on-year. The EIA will release its Short Term Energy Outlook on the same day, which will include its outlook for the global market and the latest US crude oil production forecasts. Then on Thursday, the IEA will release its monthly oil market report, where it will share its outlook for the remainder of this year and 2025.

Metals – China's metal exchange stocks decline

Shanghai Futures Exchange (SHFE) inventory data shows that weekly inventories for all base metals (except for lead) fell over the reporting week. Copper stocks fell by 26,371 tonnes for a ninth consecutive week to 215,374 tonnes. This was the biggest weekly decline since March last year, taking total inventories to the lowest level since March. Meanwhile, aluminium inventories decreased by 3,973 tonnes to 285,947 tonnes. Zinc and nickel stocks fell marginally over the week. In contrast, lead inventories rose by 18% week-over-week to 30,525 tonnes.

The latest positioning data from the CFTC shows that speculators decreased their net long in COMEX copper by 4,368 lots to 14,552 lots as of 3 September 2024. In precious metals, managed money net longs in COMEX gold decreased by 10,228 lots to 226,590 lots over the last reporting week. Similarly, speculators decreased net longs of silver by 8,781 lots to 26,501 lots as of last Tuesday.

Agriculture – Cocoa strengthens on declining stockpiles

US cocoa futures extended gains last Friday on declining stockpiles at the exchange due to poor harvests from top producers (Ivory Coast and Ghana). As per recent data, warehouse inventories in the US have been declining consistently since 11 July and fell by 31.8k bags (145lb) to 2.42m bags (145lb) as of 5 September 2024, the lowest since January 2009. Earlier, the International Cocoa Organisation raised its supply deficit estimates to 462kt for the current season. However, the broader expectation is that the supply situation will improve in the 2024/25 season.

The latest data from the International Coffee Organisation (ICO) shows that global coffee exports stood at 11.3m bags in July, up 12.2% YoY. This includes Arabica exports of 7m bags (+15.8% YoY) and Robusta exports of 4.3m bags (+ 6.7% YoY). This leaves shipments between October 2023 and July 2024 at 115.01m bags, up 10.5% YoY.

The latest data from Ukraine's Agriculture Ministry shows that grain exports in the current season have risen so far by 53% YoY to 7.5mt as of 6 September. The increase was largely driven by wheat exports of 4mt, which almost doubled from last year. Similarly, corn exports stood at 2.4mt (+9% YoY).

US weekly net export sales for the week ending 29 August show strong demand for US corn, while soybean and wheat shipments fell over the week. Weekly export sales of wheat were down to 329.5kt for the week, lower than the 497.6kt a week ago and 381.5kt the same time last year. Similarly, soybean exports fell to 1,430.7kt, lower than 2,472.2kt in the previous week and 1,783.1kt a year ago. In contrast, US corn shipments stood at 1,649.4kt, above the 1,509.4kt reported a week ago and 949.7kt for the same period last year.

Lastly, CFTC data shows that money managers decreased their net bearish bets in CBOT corn by 65,697 lots to 176,211 lots as of 3 September. The move was predominantly driven by falling short positions with gross shorts decreasing by 47,211 lots to 376,217 lots. Similarly, the speculative net short position in CBOT soybeans decreased by 22,455 lots to 154,096 lots over the last reporting week. Meanwhile, the net speculative short position in CBOT wheat fell by 13,578 lots to 42,624 lots over the last reporting week.

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