The Commodities Feed: Oil remains well supported

Energy markets remain well supported. ICE Brent is holding above US$90/bbl as the market tightens, whilst extended maintenance in Norway has supported European gas prices

Energy - Middle distillate strength

The oil market ended little changed yesterday with ICE Brent still hovering above US$90/bbl. The tightness in the market and expectations that this will continue through until the end of the year suggest that prices will remain well supported.

However, where there is even more strength in the oil market is in middle distillates, where the prompt ICE gasoil crack is trading above US$40/bbl, whilst the outright price is back above US$1,000/t. Although to be fair, this is the Sep-23 contract, which expires today. However, there is strength along the curve with the market deeply backwardated, highlighting the tightness in the market at the moment. Reports that Russia will cut seaborne exports of diesel by around 25% in September due to refinery maintenance and to ease domestic fuel prices have only provided further upside. The concern for the market is that in most regions inventories are tight as we head closer to the Northern Hemisphere winter - a period where we usually see stronger demand for middle distillates. Therefore, we believe that middle distillates are likely to remain well supported in the coming months, whilst this tightness suggests that the market will also be volatile.

European gas prices remain well supported with TTF settling close to 3.9% higher yesterday. Australian LNG strike action will be supportive, however, extended maintenance at Norwegian fields is likely the bigger driver. Maintenance work at the Troll field has been extended yet again, which is impacting around 125mcm/day. This work is expected to go on until 13 September and then capacity will be brought back gradually in the coming days and weeks. Norwegian flows are currently around 135mcm/day, down from around 330mcm/day in mid-August.

Looking at the calendar day today, OPEC will release its monthly oil market report, which will include August production numbers for the group, along with their latest outlook for the oil market. The report will likely continue to show expectations that the market will tighten for the remainder of the year. Then later in the day, the EIA will release its Short Term Energy Outlook, which will include their latest US oil production estimates for this year and 2024. Given the downward trend in US drilling activity, it is difficult to see any large upward revisions in output estimates.

Metals – China's metals output edges higher

Copper along with other base metals edged higher yesterday as the USD eased, while the market remained optimistic about a post-summer pick-up in metals demand in China. Better-than-expected Chinese credit data, signalling stabilization in household demand for mortgages, also boosted sentiment.

The percentage of Russian-origin aluminium on-warrant in LME warehouses was unchanged at the end of August, from the end of July, at 81%, according to the latest data from the exchange. Russian aluminium on-warrant in exchange warehouses totalled 183,650 tonnes.

The latest SMM survey shows that China's copper cathode production rose 15.5% YoY and 6.8% MoM to 989kt in August as some domestic smelters resumed production after completing maintenance. Cumulatively, copper output increased 11.5% YoY to 7.5mt over the first eight months of the year.

Among other metals, Chinese primary aluminium production rose 3.9% YoY to 3.6mt last month, while year-to-date output rose 2.8% YoY to 27.3mt in Jan'23-Aug'23.

Agriculture – US weekly grain inspections remain strong

The USDA's weekly export inspection data for the week ending 7 September shows strong demand for US grains. Export inspections of corn stood at 623.9kt over the week, higher than the 482.8kt in the previous week and 474.4kt reported a year ago. Similarly, US wheat export inspections stood at 406.2kt, up from 318.1kt a week ago, but lower than 757.8kt from a year ago. For soybeans, US export inspections stood at 310.1kt, compared to 406.9kt a week ago and 341.7kt for the same period last year.

The latest crop progress report from the USDA shows that 52% of the US corn crop is rated in good to excellent condition, which is down from 53% seen both in the previous week and at the same stage last year. The soybean crop also deteriorated over the week with 52% of the crop rated good to excellent, down from 53% the previous week and also below 56% seen last year. Meanwhile, the spring wheat harvest continues to progress well with the harvest 87% complete, up from 74% a week ago and above the 83% harvested by the same stage last year.

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