The Commodities Feed: Oil spreads strengthen

Sentiment in the oil market remains constructive. Price direction in the immediate term will be dictated by what Saudi Arabia and Russia decide to do with their supply cuts

Energy- Further escalation in LNG labour talks

The oil market managed to edge higher yesterday with ICE Brent settling at US$89/bbl, although trading volumes were relatively subdued owing to a public holiday in the US. Sentiment in the oil market remains largely constructive, particularly with a largely bullish narrative coming out of the ongoing APPEC week in Singapore. In addition, the oil market is waiting and expecting Saudi Arabia to extend its additional voluntary supply cut, while Russia is also expected to extend its cuts. Given market expectations, it is unlikely that the two producers would stray away from an extension and so risk a sell-off in the market.

The strength that we have seen in the flat price over the last week has been accompanied by stronger time spreads, with the prompt spread strengthening to a backwardation of US$0.75/bbl, up from US$0.39/bbl at the start of last week. Meanwhile, the Dec'23/Dec'24 spread is now trading above US$6/bbl. These stronger spreads suggest that we will continue to see a tightening in the physical market, something which our balance sheet also shows through until the end of this year. Given that the market is only expected to tighten further, this suggests that there is room for further upside in both the flat price and time spreads.

As for natural gas, negotiations between Chevron and unions do not appear to be progressing well. Partial strike action at the Gorgon and Wheatstone LNG facilities in Australia is set to commence on 7 September. However, the Offshore Alliance has now said it has served Chevron with a further notice for full rolling stoppages from 14 September. This is likely to provide some support to gas prices today and comes at a time when there is ongoing maintenance work at the Norwegian gas field, Troll, which has seen flows from Norway falling to around 130mcm/day, compared to more than 300mcm/day in mid-August.

Metals – Philippines nickel ore output rises

The latest data from the Philippines Mines Bureau shows that domestic nickel ore output climbed 40% YoY to 16.9 million dmt in 1H23 with most mines reporting output. The bureau said that 25 of the 33 operating mines reported production for the above-mentioned period. Domestic output is expected to pick up further as four mining projects are all set to start operations from this year through to 2025.

In mine supply, recent official data shows that copper output at Zambia's Mopani mines fell to 14.9kt in 1H23 on rising costs and falling output, compared to 20kt in the same period last year. Zambia's state-owned ZCCM took control of Mopani from Glencore in 2021, although it is now searching for new investors to take over the mine assets.

Agriculture – Larger Ukrainian crop

Ukraine's Grain Association revised up its 2023 grains and oilseed harvest forecast by 3.7mt to 80.5mt on better yield prospects along with favourable weather conditions. Ukraine harvested around 73.8mt of grains and oilseed in 2022. For wheat, the association now estimates the harvest to rise by 9% YoY to 22mt with potential exports of 16mt including 4.4mt of carryover stocks. Meanwhile, the corn harvest is projected to grow by 4% YoY to 28mt and roughly 22mt could be used for exports. Meanwhile, unsurprisingly there was no breakthrough in talks between Turkey and Russia to restart the Black Sea Grain deal.

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