

The Commodities Feed: Why oil could soon hit \$100 a barrel

The oil market continues to edge higher with US\$100/bbl certainly in play, given constructive fundamentals and positive sentiment



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Energy: Brent timespreads strengthen

Oil prices remain well supported, with ICE Brent edging closer towards US\$95/bbl as the market continues to become increasingly concerned over the tightness in the oil balance for the remainder of the year. The tightness in the market is also well reflected in the structure of the forward curve. The curve is moving deeper into backwardation with the prompt Brent spread trading in a backwardation of close to US\$1.20/bbl, up from just US\$0.60/bbl at the start of last week. Meanwhile, the Dec'23/Dec'24 spread is also edging closer towards a backwardation of US\$10/bbl. Tightening fundamentals have attracted speculators back into the market with both the managed money net position as well as the spreading position seeing meaningful increases over the last reporting week.

Given the constructive fundamentals and more positive sentiment, we could see ICE Brent breaking above US\$100/bbl in the not-too-distant future. However, such a move would likely be unsustainable, leading to growing political pressure, whilst the Saudis and the broader OPEC group

will probably not want to push the market too high, given the demand destruction risks this could create.

The EIA's latest drilling productivity report estimates that US shale oil production will fall by 40Mbbbls/d MoM to 9.39MMbbbls/d in October, which would be the third consecutive month of declines. Given the decline seen in the US rig count throughout the year, this trend shouldn't be too surprising. Meanwhile, the report also showed that the number of drilled but uncompleted wells (DUCs) fell by 39 over the month to 4,479 at the end of August, the lowest level since March 2014. There was a fall in both drilling as well as completions over the month.

Agriculture: EU lowers corn yield estimates

In its monthly crop monitoring MARS report, the European Commission estimates that corn yields would drop to 7.26t/ha from a previous projection of 7.45t/ha; this is also below the five-year average of 7.48t/ha. Frequent rains in the larger parts of the northern region and dry conditions across the southern areas continue to impact crop quality and yield expectations.

The latest crop progress report from the USDA shows that 51% of the US corn crop is rated in good to excellent condition, which is down from 52% seen in both the previous week and at the same stage last year. The soybean crop condition remained flat over the week, with 52% of the crop rated good to excellent. However, that's down from 55% last year. The spring wheat harvest continues to progress well, with the harvest 93% complete, up from 87% the previous week and in line with the harvest at the same stage last year. Similarly, the report shows that 9% of the corn area was harvested over the week, higher than the 5% reported in the previous week and 7% seen at the same stage last year.

The latest data from the Uganda Coffee Development Authority shows that Uganda's coffee exports rose 14.2% MoM and 48% YoY to a record high of 743,517 bags (60 kg bag) in August, following a healthy harvest in the southwest region. Coffee exports for the season rose 6% YoY to 5.6m bags through until August.

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