The Commodities Feed: Oil trades under pressure

The oil market traded under pressure this morning as slowing demand concerns outweigh fears of ongoing tensions in the Middle East

OPEC expects softening oil demand from China

Energy – OPEC lowers oil demand forecast

The Organisation of the Petroleum Exporting Countries (OPEC) released its latest monthly oil market report yesterday with the group trimming its forecasts for global oil demand for this year and next, primarily on expectations of softening demand from China. OPEC expects global oil demand to grow by 2.11m b/d in 2024 (vs earlier estimates of 2.25m b/d) and by a further 1.78m b/d (vs previous forecasts of 1.85m b/d) in 2025. However, these numbers are still stronger than those forecasted by the Energy Information Administration (EIA) and the International Energy Agency (IEA).

Meanwhile, OPEC left its non-OPEC+ supply growth forecasts unchanged for 2024 and 2025 at 1.3m b/d and 1.1m b/d respectively. The report also showed that OPEC production increased by 185k b/d month-on-month to 26.75m b/d in July, as the group exceeded the July oil target by 84k b/d. This rise was driven by Saudi Arabia, Iraq and Iran, where output rose by 97k b/d, 57k b/d and 20k b/d respectively. The OPEC+ production increased by 117k b/d in July to 40.91m b/d. The IEA will release its latest monthly oil market report today.

Mysteel Oilchem said that state and independent oil refineries in China might increase crude processing rates in August to around 69.6% of capacity. Looking at products, the gasoline yields at state refiners may fall to 24% (ending a four-month growth streak) following slowing consumption, while diesel is expected to enter its peak demand season.

Meanwhile, European gas prices ended their four straight days of upward rally with TTF front-month futures falling almost 2% and settling just below EUR40/MWh yesterday. The decline comes even as the Ukraine-Russia tensions escalate in the Kursk region. There are suggestions that both sides have no intention of halting supplies via the Sudzha gas-intake station in Russia's Kursk region. EU natural gas storage continues to edge higher, standing at around 87.6% full, above the five-year average of 79.5%.

Metals – LME copper on-warrant stocks decline

LME data show that on-warrant inventories for copper fell by 7,375 tonnes for a third consecutive session to 268,575 tonnes as of yesterday. These cancellations came after stocks reached five-year highs earlier this month. The majority of the outflows were reported from warehouses in Singapore, South Korea, and Taiwan. Meanwhile, cancelled warrants for copper rose by 7,100 tonnes for a second consecutive session to 27,550 tonnes yesterday, the highest since 26 April 2024. The cash/3m spread for copper eased to a contango of US$118.3/t yesterday, compared to a contango of US$128.6/t at the start of the month, signalling a slight supply strain in the physical market.

Although short-term risks remain to the downside for copper, there have been some positive signs too. We have started to see Chinese buyers returning to the market after prices retreated from their all-time highs. Yanghan premium, which acts as a measure of import demand, has been creeping up from negative territory. However, we still believe there are more downside risks for copper looking ahead, with the outlook in China remaining challenging. The prolonged crisis in the property market doesn't show signs of bottoming out yet and we believe this will continue to weigh on copper prices. And it's not only subdued demand in China that has been weighing on copper prices; the manufacturing sector looks weak globally, indicating sluggish demand recovery for copper and other industrial metals.

Canada-based metals mining company Lundin Mining Corp. said that it has decided to cut down operations at the Caserones mine in Chile, as one of its labour unions (around 5% of the total workforce) will proceed with a strike starting today. The move came after the failure of a collective bargaining agreement between the parties. Meanwhile, the mine successfully negotiated a new collective bargaining agreement with one of the other two unions (representing around 30% of employees) in April. The mine is expected to produce around 120kt-130kt of copper in 2024.

Agriculture – Bearish WASDE report

The United States Department of Agriculture's (USDA's) latest WASDE report was a largely bearish affair, particularly for corn and soybeans. The USDA revised up its 2024/25 US corn production estimates by 47m bushels to 15.14bn bushels on higher yield. The market was expecting production estimates of around 15.12bn bushels. The agency decreased the acreage estimates by 0.7m acre to 82.7m acre whilst the yield estimates were increased to 183.1bu/acre. 2024/25 ending stock estimates were lowered by 24m bushels to 2.07bn bushels because of higher exports. The market was expecting a number closer to 2.11bn bushels.

Globally, the agency expects the corn balance sheet to be marginally tighter than its previous estimates with corn inventory estimates lowered from 311.6mt to 310.2mt at the end of 2024/25; the market was looking for a number closer to around 311.5mt. Global corn production estimates dropped to 1,219.8mt (-5mt) following the supply losses from the EU (-3.5mt), Russia (-0.9mt), Ukraine (-0.5mt), and Moldova due to dry weather conditions.

The outlook for US soybeans in 2024/25 shows higher supplies, demand, and ending stocks. The agency revised up US soybean supplies by 154m bushels to 4.58bn bushels, higher than the average market expectations of 4.47bn bushels. The increase in supplies was reflected in the ending stock projections which are now at 560m bushels, up 125m bushels from previous estimates. The market was expecting a number closer to 467m bushels. For the global balance, 2024/25 ending stock projections were revised up from 127.8mt to 134.3mt primarily due to larger supplies and higher beginning stocks. The market was expecting a number closer to 128.3mt. Global soybean production was revised up by 6.9mt to 428.7mt mainly due to increasing supplies in the US (+4.2mt), Ukraine, India, and Russia.

The USDA decreased production estimates for US wheat by 26m bushels to 1.98bn bushels; harvest area estimates reduced from 38.8m acres to 37.9m. The market expected the production estimates to be around 2.01bn bushels. The agency decreased the US ending stock estimates for wheat from 856m bushels to 828m bushels; it was lower when compared to the market expectation of around 859m bushels. Looking at the global market, the USDA revised both production and demand estimates upwards to 798.3mt (vs. 796.2mt) and 804mt (vs. 799.9mt) respectively. Major demand revision comes from the EU, Kazakhstan, and Ukraine. Stronger demand pushed the ending stocks estimates down to 256.6mt compared to earlier estimates of 257.2mt (the lowest level since 2015/16). The estimates were slightly lower than the market expectations of around 257mt.

Meanwhile, a recent report from China's Agriculture Supply and Demand estimates (CASDE) shows that soybean imports in the nation rose to 98.4mt for the 2023/24 season, compared to its previous estimate of 100.6mt. The increase in imports was driven by rising domestic demand due to a drop in prices. Meanwhile, the group left the production, consumption, and import estimates for corn, soybean, and sugar unchanged for the 2024/25 season.

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