The Commodities Feed: Oil under pressure

The oil market came under significant pressure yesterday. Brent traded down to its lowest level since July, while WTI broke below $80/bbl. There are signs that the oil balance is looking less tight and this comes at a time when concerns over supply disruptions from the Middle East ease

Energy - Brent plummets

The oil market came under significant pressure yesterday. ICE Brent settled 4.19% lower on the day and traded to its lowest level since July. Meanwhile, NYMEX WTI settled below US$80/bbl for the first time since August. The market is clearly less concerned about the potential for Middle Eastern supply disruptions and is instead focused on an easing in the balance. Prompt time spreads have weakened, suggesting a less tight physical market. And while there are clear demand concerns hovering over the market, supply dynamics have also played a role. For example, Russian seaborne crude oil exports have grown in recent months, which suggests that Russia is not sticking to its additional voluntary cut.

The recent price weakness is likely to lead to growing noise from OPEC+ and in particular from Saudi Arabia. Whilst Saudi Arabia and Russia confirmed that they would continue with their additional voluntary cuts through until the year-end, it is increasingly likely that they will extend this into the new year if this downward pressure continues. The Saudis would like to keep Brent above US$80/bbl, as this is roughly where their fiscal breakeven price is. Our oil balance shows that the market will be in surplus in 1Q24, so further cuts are something we could certainly see.

The weakness seen yesterday is likely to continue today. The API released inventory numbers overnight which were bearish. US crude oil inventories increased by 11.9MMbbls over the last week, while Cushing crude oil stocks grew by 1.1MMbbls. For refined products, gasoline inventories fell by 400Mbbls and distillate fuel oil stocks increased by 1MMbbls. The more widely followed EIA inventory report will be released later today.

In the EIA's latest Short-Term Energy Outlook, there was little change to US crude oil production estimates. US crude oil output is expected to average 12.9MMbbls/d this year, up 1MMbbls/d YoY, while supply growth is expected to be much more modest next year, increasing by less than 250Mbbls/d to average 13.15MMbbls/d

Chinese October trade data released yesterday showed a fall in the trade surplus last month with weaker exports. However, imports were stronger, including crude oil. Crude oil imports averaged 11.58MMbbls/d in the month, up 3.7% MoM and 13.5% higher YoY. This leaves cumulative imports for the year at 11.41MMbbls/d, up 14.4% YoY. Stronger imports over the course of this year may reflect a recovery in domestic demand, while there will also be a fair amount of stock building.

Metals – China boosts gold reserves

China expanded its gold reserves for a twelfth straight month in October, according to the latest data from the People's Bank of China (PBoC). The country raised its gold reserves by around 23 tonnes to a total of 2,215 tonnes last month. China has added about 266 tonnes of gold in the last twelve months through October. In general, central bank demand over the third quarter has been strong, because of the geopolitical environment, and with this uncertainty set to linger, we are likely to see central banks continuing to add to their holdings in the coming months.

China released its preliminary trade data for metals yesterday which shows total monthly imports for unwrought copper jumped 23.7% YoY (+4% MoM) to 500.2kt in October due to declining domestic inventories and firm demand. However, cumulative imports are still down 6.7% YoY to total 4.49mt over the first ten months of the year as stronger domestic production weighed on overseas purchases. Imports of copper concentrate rose 11.3% YoY to 2.31mt last month, while year-to-date imports rose 9.2% YoY to 22.6mt. In ferrous metals, iron ore imports rose 4.6% YoY to 99.4mt in October, however, were down almost 2% MoM as steel output declined following the seasonal slump in construction activity. Cumulative iron ore imports are up 6.5% YoY to 975.8mt.

On the export side, China's unwrought aluminium and aluminium product shipments fell 8.1% YoY to 440.3kt last month, while year-to-date exports declined 17% YoY to 4.7mt over the first ten months of the year. Meanwhile, exports of steel products jumped 34.8% YoY to 74.7mt during Jan'23-Oct'23.

Agriculture – Chinese soybean imports surge

The latest trade numbers from China show that soybean imports rose 25% YoY to 5.2mt in October as domestic crushers increased purchases taking advantage of higher supplies from Brazil. Cumulative imports rose 14.6% YoY to 82.4mt over the first ten months of the year.

Weekly data from the European Commission show that soft wheat shipments for the season so far fell 25% YoY to 9.95mt as of 2 November. Morocco, Algeria, and Nigeria were the top destinations for these shipments. The commission added that corn imports over the same period stood at 5.8mt, down 43% compared to a year ago. Weaker corn imports reflect a recovery in EU corn production this season.

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