The Commodities Feed: OPEC output edges higher

All attention remains focused on Wednesday's OPEC+ meeting, where expectations are for the group to announce a large cut. Failure to deliver this could put some immediate downward pressure on oil prices. Meanwhile, the EU continues to work towards agreeing a price-cap for Russian oil

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Energy- expectations grow for large OPEC+ cut

Oil prices saw significant strength yesterday. ICE Brent managed to settle almost 4.4% higher on the day to close at US$88.86/bbl. Growing noise and expectations of a large supply cut from OPEC+ has pushed the market higher. However, as we have mentioned on a number of occasions, whilst OPEC+ might announce a large cut (in excess of 1MMbbls/d), in reality, the cut could be much smaller. This is due to most OPEC+ members producing well below their target production levels. And so there are only a handful of members who will actually need to reduce output if the group announces a large cut. Wednesday's meeting will see oil ministers meeting in Vienna and this includes Russia's deputy prime minister (who is also the former energy minister), Alexander Novak. Whilst the US has sanctioned Novak, as of yet the EU has not done so.

According to preliminary numbers from Bloomberg, OPEC supply increased by 230Mbbls/d over September to average 29.89MMbbls/d. This increase was driven largely by Libya, whose output grew by 120Mbbls/d. However, looking at OPEC-10 (OPEC members who are part of the OPEC+ supply deal), their output averaged 25.53MMbbls/d over the month, well below their target production of 26.75MMbbls/d.

The EU is still working towards an agreement on a G-7 price cap. The idea is to have a preliminary agreement in place before EU leaders meet on 7 October. But it appears that there are difficulties in reaching a consensus, with Greece, Cyprus and Malta concerned about the impact such a cap will have on shipping oil, given that they have large shipping industries. Hungary has also proved to be an obstacle when it comes to the price cap. The G-7 wants the cap on Russian oil prices to come into effect prior to the EU's ban on Russian crude oil, which is due on the 5 December.

Metals – aluminium premiums soften in Japan

Major aluminium buyers in Japan will likely pay the lowest premiums on imported metal in nearly two years, reflecting weakening consumption, especially from the auto sector. At least two buyers have agreed to pay $99 a tonne for supplies this quarter, 33% lower than the prior three months as demand for the light metal continues to soften amid macroeconomic concerns. Japan's manufacturing PMI has dropped from its recent peak of around 56 in March 2022 to around 50.7 in September, reflecting a slowdown in the manufacturing sector. The trend is largely similar to Western markets, where the European duty-paid aluminium premium has softened to US$390/t compared to US$490/t at the start of September and nearly US$518/t at the end of 2Q22.

Iron ore prices came under pressure as China's latest stimulus measures failed to lift sentiment in the market. China's financial regulators told the biggest state-owned banks to extend at least 600 billion yuan ($85 billion) of net financing to the real-estate sector as steel demand has been hit by the property slowdown and Covid-19 lockdowns.

Agriculture – uncertainty over Black Sea supplies supports wheat

CBOT wheat has been trading firm over the past few days and made a fresh 3-month high of more than US$9.3/bu yesterday as Russia's illegal annexation of some Ukrainian regions has pushed up supply risks for Ukrainian wheat shipments from the Black Sea under the UN's Black Sea Grain Initiative. Under the deal, Ukraine has shipped around 5.5mt of agri products (mostly grains) through its three ports since the start of August and plans are to increase shipments to 5mt per month. Earlier, Ukraine's Agriculture Ministry reported that the local grain harvest has dropped by around 44% YoY to 26.1mt in the season so far. The wheat harvest is nearly complete at 19.2mt (down 40% YoY), whilst the corn harvest has just started with 0.9% of harvesting completed so far compared to around 13% at this stage last year.

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