The Commodities Feed: Potential for OPEC+ supply cuts

Oil prices had a volatile day yesterday. Brent recouped almost all of its losses from earlier in the day after comments from the Saudi energy minister. Meanwhile, European natural gas prices continue to move higher

Energy - possible OPEC+ action

The Saudi energy minister has warned that the oil futures market is becoming increasingly disconnected from the physical market, which is not helped by the lack of liquidity and high volatility in the futures market. The increased volatility has also meant that price discovery has become a lot more difficult for the market. The minister suggested that the divergence between the physical and paper market could force OPEC+ to take action by cutting oil production. It might be difficult to justify supply cuts when Brent is trading above US$90/bbl, but possibly the minister's comments were an attempt to put a floor under the market. While the oil market is tight in the medium to long term, and there is limited spare capacity, our balance sheet shows that the oil market will be well supplied for the remainder of this year and into early next year. A return of Iranian supply would improve the supply/demand picture even further.

European natural gas continues to strengthen. TTF rallied more than 13% yesterday, which saw it settle at almost EUR277/MWh, a record high settlement. Although on an intraday basis, the market traded higher back in March. The market continues to fret about supply following Gazprom's announcement that it would stop flows along Nord Stream for 3 days to carry out maintenance at a compressor station. While EU gas storage continues to increase and is 77% full at the moment (not far from the EU target of 80% by 1 November), there are real concerns about how Russian gas flows will evolve as the region moves into winter. The uncertainty means that prices will likely remain elevated and volatile.

Metals – European metal output declines

Data from the International Lead and Zinc Study Group shows that the zinc market was in a surplus of 26kt in the first half of 2022, compared to a balanced market during the same period a year earlier. Total refined production fell 2.6%YoY to 6.8mt (largely due to declines from Europe), whilst consumption declined by 3%YoY to 6.7mt in the first six months of the year. Supply is likely to come under further pressure for the remainder of the year after more European smelter cuts were recently announced.

The latest numbers from the International Aluminium Association (IAI) show that global daily primary aluminium output fell to 188.6kt in July, from 189.1kt a month earlier. Total monthly output stood at 5.85mt, up 2.1%YoY, while cumulative production remained largely flat at around 39.5mt over the first seven months of the year. Chinese output rose 3.3%MoM to 3.5mt last month, whilst Western and Central European output fell 10%YoY to 251kt in July. Global production is likely to come under further pressure in the months ahead due to the power issues in Sichuan province in China, along with further smelter cuts in Europe.

Agriculture – Early feedback from crop tour suggests lower yields

The USDA's latest weekly crop progress report shows that 95% of the US winter wheat crop was harvested as of 21 August, up from 90% a week ago, but still down from year-ago levels of 99%. As for crop conditions for corn and soybeans, 55% of the corn crop was rated good-to-excellent, down from 57% a week ago and 60% last year, whilst 57% of the soybean crop was rated good-to-excellent, down from 58% a week ago. Early feedback from the Pro Farmer Midwest Crop Tour suggests that the US corn and soybean crop in parts of South Dakota is not in great condition due to dry weather, which is expected to weigh on yields.

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