The Commodities Feed: Pressure remains on oil

Brent broke below $80/bbl for the first time since early June as demand concerns linger

Oil prices have sold off aggressively

Source: Shutterstock

Energy – Brent tumbles below $80/bbl

Oil prices have come under further pressure as bearish sentiment has hit not just oil but large parts of the commodity complex, leading to a large amount of speculative selling. ICE Brent settled 1.66% lower yesterday, leaving the market below $80/bbl for the first time since early June. Weak Chinese demand remains the driver for the oil market, following a raft of fairly bearish data in recent weeks. China is important for the global oil balance, as it is expected to make up more than 50% of global oil demand growth in 2024, so slower-than-expected growth can dramatically change the balance.

The market will also be closely watching any developments in Venezuela following elections over the weekend. The current president, Nicolas Maduro has claimed victory in the election, although there are doubts over the result with opinion polls in the lead-up to the election showing a strong victory for the opposition. The US has said potential further sanctions will depend on whether the government releases voting data. While the US eased oil sanctions against Venezuela last year, these were reimposed earlier this year after the US felt the government did not live up to its side of a deal for fairer elections.

The US Department of Energy (DoE) agreed to buy 4.65m barrels of crude oil for its Strategic Petroleum Reserve (SPR) for delivery between October and December 2024. In an effort to refill the SPR, the DoE has said that it has bought a total of 43.25m barrels at an average price of around US$77/bbl, lower than the $95 average at which oil was sold in 2022 during the emergency releases.

Natural gas prices rallied further yesterday. TTF front-month futures settled 4.3% higher on forecasts for hotter weather in Asia. Spot Asian LNG prices remain at a healthy premium to European gas prices, which leaves Asia a more attractive destination for spot cargoes. Lower flows to the EU are reflected in LNG send-out data, which has dropped to its lowest level since late 2021, according to GIE.

Metals – China's gold demand falls amid record prices

China’s gold demand fell almost 6% from a year earlier in the first half of the year to 524 tonnes amid record high prices for the precious metal, the China Gold Council said in its latest report. Jewellery purchases fell 27% in H1 with China's sluggish economy weighing on luxury item purchases, however, this was partly offset by increased sales of bars and coins, which jumped by 46% from a year earlier. The figures in the report include jewellery, bars, coins and industrial consumption but not central bank purchases. The People’s Bank of China halted gold purchases in May and June, following an 18-month buying streak that had driven gold prices to record highs. High gold prices have likely deterred further purchases for now. However, we still expect central bank demand to remain strong amid the current economic climate and geopolitical tensions. We also believe that prices will be supported by safe-haven demand amid geopolitical risks, the US presidential election in November and the long-awaited US Fed rate cut.

Recent reports suggest that the union at BHP’s Escondida copper mine in Chile has urged its members to reject a final contract offer from the company. This has raised concerns about a potential strike. The workers will vote from Monday to Thursday. However, the company said that the management is much better prepared for a strike than before.

Agriculture – Vietnam coffee shipments fall

The General Statistics Office of Vietnam released trade volume estimates for July which show that coffee exports totalled 70kt, down 35.7% YoY. Cumulative coffee exports have dropped by 13.8% YoY to 964kt over the first seven months of the year. Poor weather conditions are largely behind these lower volumes.

The USDA’s weekly export inspection data for the week ending 25 July shows strong demand for US grains. Export inspections of corn stood at 1,058.9kt over the week, higher than the 991.3kt in the previous week and 538.2kt reported a year ago. Similarly, US wheat export inspections stood at 431.2kt, up from 262.6kt a week ago, but lower than 585.3kt from a year ago. For soybeans, US export inspections stood at 403.3kt, compared to 338.3kt a week ago and 334.4kt for the same period last year.

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