The Commodities Feed: Russia-Ukraine tensions add to oil supply risks

The Ukrainian drone attacks on Russian oil tankers in the Black Sea region have added to supply risks for the crude oil market. Meanwhile, the Joint Ministerial Monitoring Committee (JMMC) meeting of OPEC+ countries ended without any recommendation to change oil output levels for now

A Russian oil tanker was hit by a Ukrainian sea drone over the weekend

Energy – Ukrainian drone attacks on Russian oil tankers

ICE Brent settled above US$86/bbl on Friday as tensions in the Black Sea region increased further after Ukraine declared Russian ports in the Black Sea as 'war risk' areas and cautioned ships against using them. Ukrainian drones also attacked a Russian oil tanker over the weekend reflecting heightened tension within the region. The Black Sea route accounts for nearly 15-20% of the oil that Russia sells daily on global markets and is also a major transit corridor for Kazakh crude.

In the recent JMMC meeting, the OPEC+ group noted its satisfaction regarding the compliance with the output levels by member countries and made no recommendation for any change in production strategy at this stage. The committee recognised the additional voluntary cuts from

Saudi Arabia and Russia to balance the oil market. The group has changed the frequency of meetings from once a month to once every two months, with the next meeting scheduled for the first week of October.

Saudi Arabia increased its official selling price for Asia and Europe for September deliveries following its decision to also extend the output cuts for the month. Saudi Aramco has increased the premium of Arab Light crude for Asian buyers by US$0.30/bbl to US$3.5/bbl for September deliveries. The increment was much steeper for European buyers with the new premium set at US$5.8/bbl compared to US$3.8/bbl for August deliveries. The premium for US buyers was left unchanged at US$7.25/bbl.

The latest data from Baker Hughes shows that the US oil rig count declined by four for an eighth consecutive week to 525 over the last week. This is the lowest number of active rigs seen since 18 March 2022. The recent strength in oil prices should have seen higher capital expenditure and increasing rig count in the country, however, the oil exploration companies appear to still be assessing the stability of the current market strength.

Lastly, the latest positioning data from CFTC show that speculators increased their net long position in NYMEX WTI for a fifth consecutive week by 13,855 lots over the last week, leaving them with net longs of 205,959 lots as of 1 August 2023, the highest since the week ending on 18 April 2023. Meanwhile, money managers increased their net longs in ICE Brent by 18,728 lots over the last week for a second consecutive week, leaving them with 215,368 lots as of last Tuesday.

Metals – China's copper exchange inventories drop further

Weekly data from Shanghai Futures Exchange (ShFE) show that inventories for base metals remained mixed over the last week. Copper stocks fell by 9,138 tonnes (-15% week-on-week) for a third consecutive week to 52,152 tonnes (the lowest since the week ending on 30 September 2022) as of last Friday. In contrast, inventories of other major metals reported inflows, with aluminium inventories rising by 1,811 tonnes (+1.8% WoW) to 112,807 tonnes at the end of last week. Meanwhile, weekly exchange inventories for zinc, lead and nickel rose by 1.1%, 5.7% and 9.7% respectively as of Friday.

Meanwhile, the latest CFTC data show that speculators increased their bullish bets in COMEX copper by 8,011 lots for a third consecutive week over the last reporting week, leaving them with a net long position of 21,513 lots as of last Tuesday. Moving to precious metals, speculators decreased their bullish bets in COMEX gold by 16,954 for a second straight week, to leave them with a net long of 99,337 lots, while increasing their net long in silver by 7,487 lots as of last Tuesday.

Agriculture – Wheat gains on escalating Ukraine-Russia tensions

CBOT wheat futures edged higher with the most active contract rising more than 2% this morning due to increasing tensions in the Black Sea region following the Ukrainian attack on Russian ships. According to recent updates about the Ukraine and Russia conflict, Ukrainian drone strikes near the Black Sea port of Novorossiysk, a key hub for Russian grain and oil shipments, led to the closure of the port for several hours. The move was in retaliation for the numerous attacks by Russia on Ukrainian ports. Meanwhile, the latest reports from the Ukrainian Agriculture Ministry showed that the nation's grain shipments rose 29% YoY to 2.4mt as of 4 August. The exports included around 1.2mt of corn (- 3.7% YoY), whilst wheat shipments surged twofold against last year and stood at 880kt.

The French agriculture ministry's initial estimates for the season show that the nation's corn harvest for the year is expected to rise to 11.2mt, compared to 10.9mt a year ago. Meanwhile, soft-wheat crop output is now seen slightly higher at 35.6mt, compared to the July estimate of 35mt. Despite the drop in planting, the improvement in harvest projections reflects the better yield after the drought-stricken 2022 which damaged crops.

In its latest report, the European Commission reported the EU's soft wheat exports for the ongoing season at 2.35mt this year as of 30 July, down from 2.7mt reported in a similar period a year ago. The major destinations for these shipments were Morocco, Algeria, and South Africa. The commission added that the nation's corn imports in a similar period stood at 1.17mt, down 28% compared to a year ago.

The latest CFTC data show that money managers reduced their net bullish bets in CBOT corn by 9,862 lots to 16,741 lots as of 1 August. The fall was led by an increase in gross shorts by 25,065 lots, taking the total to 168,281 lots. Similarly, speculators decreased their net bullish bets in soybean by 26,246 lots to 94,493 lots. The move was fueled by a drop in gross longs by 22,583 lots, taking the total gross longs to 123,815 lots. Meanwhile, the net speculative short positions in CBOT wheat rose by 10,096 lots to 50,428 lots over the last reporting week following an increase in gross shorts.

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