The Commodities Feed: Saudi and Russian oil cuts

The oil market had largely expected the Saudis and Russians to extend supply cuts. What was unexpected was extending these cuts through until year-end

Source: iStock

Energy – Saudi extends cuts

The oil market moved higher yesterday, with ICE Brent settling above US$90/bbl for the first time since November. Saudi and Russian supply cuts were the catalyst for the move higher.

Saudi Arabia announced that it would extend its voluntary supply cut of 1MMbbls/d until the end of the year. Similarly, Russia said that it would extend its export cut of 300Mbbls/d through to year-end. While it was largely expected that these voluntary cuts would be extended, expectations were for a one-month extension rather than three months. This does leave the market with a deeper than expected deficit over the fourth quarter of 2023, which should continue to support prices. For now, we are reluctant to revise higher our price forecasts on the back of this extension, as demand concerns continue to linger and Iranian supply is rising. Iran is producing close to 3.1MMbbls/d and plans to pump around 3.4MMbbls/d. Meanwhile, our oil balance shows a small surplus in the first quarter of 2024, which should limit prices moving significantly higher. We continue to forecast that Brent will average US$92/bbl over the fourth quarter of this year.

Looking further ahead, we would not rule out a further extension of these cuts (fully or partially) into early next year, given that our balance sheet shows that the oil market will be in a small surplus over the first quarter of next year. Any cuts will obviously depend on where oil is trading towards the end of the year and whether demand worries are still present.

Agriculture – US weekly grain inspections decline

The latest crop progress report from the USDA shows that 53% of the US corn crop is rated in good to excellent condition, which is down from 56% the previous week and slightly below the 54% seen at the same stage last year. The soybean crop also deteriorated over the week, with 53% of the crop rated good to excellent, down from 58% the previous week and also below 57% seen last year. Meanwhile, the spring wheat harvest continues to progress well with the harvest 74% complete, up from 54% the previous week and above the 68% harvested by the same stage last year.

The USDA's weekly export inspection data for the week ending 31 August showed weaker export demand for corn and wheat. Export inspections for corn stood at 481.3kt over the week, lower than 600kt in the previous week and 543kt reported a year ago. Similarly, US wheat export inspections stood at 300kt, down from 390.4kt a week ago and also lower than the 538.5kt seen last year. For soybeans, US export inspections came in at 378.6kt, compared to 326.1kt from a week ago and 500.3kt reported a year ago.

In Australia, the government has trimmed its wheat production estimates by 3% from June to 25.4mt, which would be 36% smaller than the record harvest seen last year. The revisions were made primarily due to dry weather conditions and below-average rainfall in some wheat-growing regions.

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