The Commodities Feed: Saudi output cuts propel crude higher

The extension of the production cuts by Saudi Arabia and Russia has propelled ICE Brent prices back to above US$85/bbl today as supply tightness remains. Saudi has further assured the market that cuts could stay for as long as required

Energy – Saudi extends oil output cuts for September

Crude oil prices recovered back to above US$85/bbl today after Saudi Arabia and Russia decided to extend the voluntary production cuts to September 2023. Saudi Arabia announced yesterday that it will extend the voluntary cuts of 1MMbbls/d for September and further assured the market that the cuts could be prolonged further or even deepened if required to balance the market. Saudi Arabia's crude oil production dropped to around 9.2MMbbls/d in July compared to around 10MMbbls/d in June 2023. The extension of output cuts means production could remain around 9MMbbls/d in the immediate term.

Meanwhile, Russia also announced it will extend the voluntary cuts into September by 300Mbbls/d. The cuts are marginally down from 500Mbbls/d for August. Nevertheless, lower supply will help tighten the market.

Meanwhile, the demand side remains relatively soft, with some of the market estimates putting China's oil demand growth to below 1MMbbls/d for the fourth quarter of the year compared to around 1.2MMbbls/d for the current quarter. Higher crude oil prices, ample domestic inventory and a slower economy could weigh on Chinese demand over the coming months. However, stimulus or supportive measures from Beijing could help improve the demand outlook for the rest of the year.

Metals – Chinese steel mill inventories fall

The most active contact of iron ore trading at SGX edged higher this morning (after trading lower for three consecutive days) on expectations of more supportive measures for the Chinese property sector and falling steel inventories. Recent efforts from China included a pledge from the central bank to increase monetary support to the private sector primarily to revive its struggling property sector. Meanwhile, steel inventories at major mills in China fell 13% year-on-year to the lowest level since December in the last ten days of July.

Recent data from China Iron and Steel Association (CISA) show that steel inventories at major Chinese steel mills fell for a second consecutive week to 14.5mt (the lowest since December) in late July, down 7.5% compared to mid-July. Meanwhile, crude steel production at major mills fell by 5% to 2.14mt/d in late July.

Agriculture – Ukraine revises up grain crop estimates

In its recent estimates, the Ukraine Grain Association revised up the wheat crop forecast to 20.2mt compared to its previous projections of 17.9mt. Meanwhile, corn estimates were also revised higher to 26.9mt, up by 11% from its previous estimates. The estimates were revised primarily due to the supportive weather conditions and improving crop yields. Despite concerns surrounding the black sea, the association expects Ukraine's grain shipments to reach 48mt in 2023/24, which includes 22mt of corn and 15mt of wheat.

The latest data from the International Coffee Organization shows that global coffee exports fell to 10.4m (60kg) bags in June, down 6.7% compared to 11.2m (60kg) bags exported a year earlier. Cumulatively, exports fell by 6.2% YoY to 93.4m (60kg) bags from October 2022 to June 2023. Arabica exports fell by 12.4% YoY whilst Robusta shipments were up 3.4% YoY in the abovementioned period.

The USDA's weekly net export sales for the week ending 27 July showed a significant rise in demand for US soybean, while corn exports fell over the previous week. US soybean shipments surged to 2.7mt, much higher than the 0.7mt reported a week ago and 0.4mt reported a year ago. The market was expecting a number closer to 2.1mt. In contrast, US corn shipments stood at 456kt, lower than the 650kt reported a week ago and the average market expectations of 658kt but higher than 315kt reported a year ago.

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