

The Commodities Feed: Saudis stick to supply cut

Despite the ongoing conflict between Israel and Hamas, the oil market is decreasingly concerned that the conflict will disrupt oil supplies. However, we continue to expect a tight market for the remainder of this year



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Energy - Saudis and Russians continue with oil cuts

The oil market saw a second consecutive week of declines with the market becoming less concerned over supply disruptions from the ongoing Israel-Hamas conflict. Demand concerns will also put renewed downward pressure on the market, particularly after the weaker-than-expected Chinese PMI data released last week. Speculators also appear to be taking risk off the table. The latest positioning data shows that money managers reduced their net long in NYMEX WTI by 60,795 lots over the last reporting week to 153,474 lots as of last Tuesday. 34,146 lots of this move was driven by fresh shorts entering the market, whilst there was obviously a fair amount of long liquidation. This is the smallest net long speculators have held in WTI since July. ICE Brent also saw a reduction in its net long with speculators selling 16,413 lots to leave them with a net long of 200,283 lots. This move was predominantly driven by longs liquidating.

Over the weekend both the Saudis and Russians once again stated that they will continue with their additional voluntary supply cuts through until the end of this year. The Saudis have made additional cuts of 1MMbbls/d since July, while Russia has cut exports by 300Mbbbls/d. More recently we have seen Russian seaborne crude oil exports increasing, which does call into question whether they are sticking to the additional voluntary cuts. The confirmation from these producers that they would continue with cuts shouldn't come as too much of a surprise. However, what the market will be more interested in is if they extend these cuts into early 2024. Our oil balance shows that the market will be in surplus in 1Q24, which may be enough to convince the Saudis and Russians to continue with cuts through the seasonally weaker demand period of Q1.

The oil rig count in the US fell by 8 over the last week to 496 according to Baker Hughes data. The fall breaks three consecutive weeks of increase, in which the number of active rigs increased by 7. The lack of response from US producers to the current price environment will likely give the Saudis confidence to continue holding supply from the market without the risk of losing a large amount of market share to US producers.

Metals – LME copper exchange stocks rise

LME copper exchange inventories increased by 9,775 tonnes on Friday to 180,600 tonnes, after declining for nine straight sessions. The bulk of the inflows were seen in New Orleans and Rotterdam warehouses. Meanwhile, total on-warrant stocks rose by 8,400 tonnes to 166,725 tonnes, while cancelled warrants increased by 1,375 tonnes to 13,875 tonnes. The cash/3m spread continues to trade in a deep contango of US\$79.80/t, suggesting little concern over tightness in the prompt market.

Data from the Shanghai Futures Exchange (ShFE) shows that weekly inventories for all major base metals increased over the last week. Copper stocks increased by 4,108 tonnes (+11.3% WoW) to 40,516 tonnes as of Friday. Aluminium inventories increased by 3,720 tonnes (+3.4% WoW) to 114,739 tonnes. Meanwhile, nickel, zinc and lead all saw increases over the week of 6.5%, 5.2% and 4.3% respectively.

The latest positioning data from the CFTC shows that managed money net longs in COMEX gold increased by 15,661 lots over the last week to 106,343 lots as of 31 October. The move was driven predominantly by fresh longs entering the market amid the ongoing uncertainty in the Middle East. As for COMEX copper, speculators reduced their net short by 3,529 lots to 14,315 lots.

Agriculture – Ukraine grain shipments decline

Recent numbers from Ukraine's Agriculture Ministry show that total grain exports dropped 32% YoY to 9.5mt so far in the 2023/24 season. Ukraine's wheat exports fell 9.3% YoY to 4.7mt, while corn exports stood at 3.94mt (-47% YoY). These weaker exports are obviously due to the suspension of the Black Sea Grain Initiative earlier in the year. The issue for Ukraine is that grain output is expected to be relatively firm this year and so obstacles to export suggest that Ukraine will carry higher stocks in the domestic market. The Ukraine Grain Association revised up its forecast for the grain and oilseed harvest by 1.4% to 81.6mt for the 2023/24 season, while exports are seen at 50mt.

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