The Commodities Feed: Sentiment remains negative

Commodities came under further pressure yesterday. A stronger USD and broader demand concerns continued to weigh on the complex. The weakness in the oil market creates some uncertainty over what OPEC+ will decide to do about output policy when they meet on Monday

Energy - oil comes under further pressure

The sell-off in the oil market has continued. The ICE Brent Nov'22 contract settled almost 2.3% lower yesterday, which takes total declines over the last three days to around 10%. Demand concern is growing once again after China imposed a lockdown in Chengdu, a city with a population of around 21 million. In addition, the strength in the USD has weighed heavily, not only on oil, but the broader commodities complex.

The market is edging closer towards US$90/bbl and this creates a bit of uncertainty. In mid-August when the market traded down to these levels, the Saudi energy minister suggested the potential for OPEC+ supply cuts. So, it will be interesting to see what OPEC+ decides at their next meeting, which is scheduled for Monday. We expect the group to leave output targets unchanged. Their own numbers show a tighter-than-expected market. And they would probably also want some more clarity on Iranian supply before making any big changes to output policy. However, ultimately it will depend on where the market is trading as we head into the meeting. If this downward pressure continues and we see Brent breaking below US$90/bbl, there is always the potential that OPEC+ surprises the market with a cut.

Preliminary numbers from Bloomberg show that OPEC output in August increased by 590Mbbls/d MoM to average 34.05MMbbls/d. The increase was driven by Libya, where output increased by 380Mbbls/d. Libyan output has been recovering after months of disruptions. Other notable increases came from Saudi Arabia and the UAE, which increased production by 180Mbbls/d and 150Mbbls/d respectively. Unfortunately for Nigeria, production continues to come under pressure, declining by 70Mbbls/d to 1.13MMbbls/d over the month. This is 696Mbbls/d below Nigeria's output target and also the lowest monthly production seen in at least a decade. The fall in output has been blamed on vandalism to infrastructure and theft.

Metals-sentiment remains clearly negative

Macro headwinds along with a strengthening dollar dominated markets yesterday. Spot gold broke below US$1,700/oz, leaving it close to the recent lows seen back in July. Gold has been under pressure for much of the week, weighed down by hawkish comments from the Fed last week at Jackson Hole. For base metals, the Covid-related lockdown in Chengdu, China will also have done very little to help sentiment in the market. The demand story for metals continues to dictate price action at the moment, despite most metal markets being plagued with supply disruptions (due to the European energy crisis) and low exchange inventories.

There are suggestions that at least two major aluminium producers have offered Japanese buyers a premium of US$133/t and US$115/t respectively for 4Q22, a decline of 22% from the previous quarter. This could be the lowest premium in over a year. Falling premia reflect the weaker demand we are seeing from the automotive sector.

Agriculture - Indian sugar export limits

The most recent reports suggest that India is set to permit sugar exports in two tranches for the next season that begins in October. This follows government restrictions on exports this season. The new export policy is expected to be announced this month, which could allow total exports of around 7-8mt in the upcoming season, out of which 4-5mt is expected to be allowed in the first tranche. The government capped sugar exports at 11.2mt for the current marketing year after local mills sold record volumes onto the global market.

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