

The Commodities Feed: Tightening 2023 oil balance

Demand concerns have weighed on oil prices so far this week. The medium to long term outlook for the market is still constructive, with expectations of a tighter balance. Latest US oil supply estimates for next year only reinforce the view of a tighter oil market in 2023



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Energy - lower US oil supply growth

Oil prices came under further pressure yesterday, with ICE Brent settling more than 2.6% lower as Covid cases in China rise, while the government recently made it clear that it will stick to its zero-Covid policy. Meanwhile, API numbers released overnight show that US crude oil inventories increased by 5.61MMbbls over the last week, whilst gasoline stocks grew by 2.55MMbbls. Distillate inventories fell by 1.77MMbbls, which will do little to help ease concerns over supply tightness in middle distillates as we head into the heating season.

In the short term, sentiment remains negative as a result of the demand outlook. However, the supply picture for 2023 is looking increasingly tighter. The EIA yesterday released its latest Short Term Energy Outlook, in which further cuts were made to US supply growth expectations for next year. The EIA now forecasts that US crude oil output will grow by 490Mbbbls/d YoY to 12.31MMbbls/d

in 2023. While this is slightly lower than last month's numbers, output forecasts have been consistently lowered through the year. If we go back to March, the EIA was expecting that 2023 output would grow by close to 1MMbbls/d to around 13MMbbls/d. The US industry appears focused on capital discipline rather than pumping as much as they can. Not helping matters is that oil producers have reported labour and equipment shortages, along with rising costs.

Lower than expected supply growth from the US leaves the market more vulnerable over 2023. In addition to ongoing OPEC+ supply cuts, Russian oil supply should fall as the EU ban on Russian crude and refined products comes into effect. Lower US supply growth gives us even more confidence in our view that Brent will average US\$110/bbl in 4Q23.

Metals – Codelco proposes price hike for Chinese copper buyers for 2023

Codelco, the world's biggest copper miner, has proposed a premium of \$140/t for 2023 supplies to at least two Chinese customers, a 33.3% increase from this year, and its highest since 2008, according to a report from Reuters. The premium, paid on top of LME copper prices for physical delivery of copper cathodes into China is a widely watched industry benchmark. The move continues a trend of higher premiums - last month Codelco and Aurubis increased 2023 refined copper premiums for European buyers on the back of expectations of firm copper demand and low inventories. Meanwhile, China's copper cathode production rose 14.2% YoY, according to data from SMM, although fell 0.9% MoM to 901kt in October amid power cuts, Covid-related restrictions and tight supply for blister copper and copper scrap. Cumulative copper output increased 2.8% YoY to 8.51mt over the first ten months of the year. Chinese refined zinc production rose 3% YoY and 2% MoM to 514mt in October. Cumulative output still fell 2.5% YoY to 4.93mt in the first ten months of the year.

Agriculture – France revises corn output lower

The Agriculture Ministry of France revised lower its estimate for domestic corn output from a previous forecast of 11.4mt to 11mt following drought conditions. French corn output is now expected to come in 29% lower than last year and 21% below the 5-year average.

The latest data from Ukraine's Agriculture Ministry shows that winter grain plantings are now 90% complete with 4.3m hectares planted. The bulk of this is winter wheat- 3.6m hectares, whilst 568k hectares and 79k hectares of barley and rye have been planted respectively.

Weekly data from the European Commission shows that soft wheat shipments from the EU reached 12.5mt as of 6 November, up from 11.9mt for the same period last year. Meanwhile, given lower domestic output, EU corn imports stand at 10.2mt, compared to 4.64mt last year.

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