The Commodities Feed: Tough decisions for OPEC+

Oil prices managed to find support yesterday despite a bearish tone coming out of APPEC in Singapore. The bearish outlook leaves OPEC+ with some tough decisions

Source: iStock

Energy – US Gulf storm risks

Oil prices stabilised yesterday and Brent managed to settle 1.1% higher on the day. This is despite a bearish tone coming from APPEC (Asia Pacific Petroleum Conference) Week in Singapore, which kicked off yesterday. Demand concerns are the main focus, particularly when it comes to China. Most are also looking at a well-supplied market in the months ahead. A bearish outlook leaves OPEC+ with two options. They can continue to try manage supply in order to support prices. However, in doing so, they will be giving market share away to non-OPEC+ producers. The other option is to open the taps in an attempt to push out other producers. Obviously the group would have to be willing to accept much lower prices with this option. While we believe OPEC will follow the former option, there is a risk, particularly if they are having little success in supporting the market, that they decide to pursue the other option at some point through 2025.

Offering some further support to the market is Tropical Storm Francine in the Gulf of Mexico, which is set to be upgraded to a hurricane when it reaches the Louisiana coast on Wednesday. The storm has led some operators to shut platforms. Chevron, Exxon and Shell have already evacuated workers from some platforms. The storm also puts US Gulf Coast refinery operations at risk once it makes landfall.

There is a fair amount on the calendar for today. Firstly, there will likely be further noise coming from APPEC in Singapore. China also releases its first batch of trade data for August, which will offer some more insight into how Chinese oil demand is performing. Crude imports over the first seven months of the year were down 2.4% YoY. OPEC will release its latest monthly oil market report. Last month the group revised its 2024 demand growth estimate down by 130k b/d to 2.11m b/d, while there was also a marginal revision lower in 2025 demand. However, OPEC's demand numbers are still extremely bullish relative to other estimates and do not align with price action. We could see the group make further downward revisions to their demand estimates today. Finally, the EIA (US Energy Information Administation) will also release its Short Term Energy Outlook today, which will include its latest outlook on the global market and US crude oil production forecasts.

Metals – Iron ore breaks below $90/t

Iron ore prices sank below $90/t for the first time since 2022 yesterday as China gloom continues to deepen. Iron ore is one of the worst-performing commodities so far this year, with prices now down about 33% year-to-date. We believe price risks are increasingly skewed to the downside for the industrial metal as the outlook in China, the biggest buyer, continues to deteriorate. Iron ore port holdings in China continue to rise, now back above 150 million tonnes and standing at their highest ever for the time of year, a sign of abundant seaborne supplies.

Steel inventories at major Chinese steel mills fell to 14.5mt - the lowest level since January - in late August. This was down 11.6% compared to mid-August, according to data from the China Iron and Steel Association (CISA). Steel inventories are 1.2% lower than in the same period last year. Crude steel production at major mills fell by 5.4% from mid-August to 1.89mt/d (the lowest in eight months) in late August, as more domestic steel mills scaled back operations at their blast furnaces in response to heavy losses.

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