The Commodities Feed: Norway supply concerns

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Energy

ICE Brent saw further strength yesterday, settling almost 1.7% higher on the day. While there are demand concerns given the gloomier macro outlook, the market is still expected to be tight for the remainder of the year. OPEC+ producers have limited room to increase output significantly, and so are unable to provide much relief to the market. As mentioned in yesterday's note, OPEC production declined over June, with the bulk of members falling short of their output targets. However, political pressure on OPEC members to increase output will keep growing. President Biden is set to visit the Middle East this month, and energy prices will likely be at the top of the agenda. British prime minister, Boris Johnson, has also called on OPEC members to increase output more aggressively.

Further supply risks will also provide support to the market. Strike action in Norway is set to escalate over the course of this week, which could ultimately see nine oil & gas fields having to shut According to Reuters, this could lead to around 15% of Norwegian oil output being shut. This strike action is having a more meaningful impact on European gas prices. TTF rallied by more than 10% yesterday, leaving the market at almost EUR163/MWh- the highest level since early March. According to Reuters, if the strike action continues to escalate as planned, it could see almost a quarter of Norwegian gas output shut. Obviously this is not great for the EU, given the region is already having to deal with reduced pipeline flows from Russia.

Gazprom is also pushing the Russian government for more coordination of LNG and pipeline exports. At the moment, buyers in Europe have to pay Gazprom in roubles for pipeline gas, whilst the same rules do not apply to LNG exports. As a result, Gazprom says that there is currency competition between the Russian pipeline and LNG flows.

Agriculture

Indonesia announced a further relaxation of its export quota for crude palm oil as domestic inventories grow and domestic prices soften. Indonesia will now allow palm oil exports of up to seven times producers' domestic sales obligation, increasing from five times earlier. Since announcing an export ban in April, Indonesia has eased its export policy several times over recent weeks as domestic supplies increase. Crude palm oil prices crashed by around 10% yesterday as a result. Meanwhile, Indonesia has also announced plans to increase its biodiesel mandate from 30% to 35-40%, which will be supportive of palm oil in the medium term; although for the short-term, the market remains focused on the prospects of increased exports.

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