

The Commodities Feed: Oil holds firm

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Energy

The oil market finished little changed yesterday, with ICE Brent eking out a small gain. This is despite it looking increasingly unlikely that we will see the US re-join the Iranian nuclear deal before the Iranian Presidential Elections later this week. While Iran has said that there is a broad agreement with the US on lifting sanctions, there are still some issues that need to be resolved. If talks drag on, there is the potential for a new government taking a different approach with the negotiations, which could possibly further delay any deal. We are assuming that Iranian supply increases from 2.4MMbbls/d currently to 2.6MMbbls/d over 3Q21 and then to 3MMbbls/d in 4Q21. If talks do drag on into 2H21, this supply is at risk. However, it would mean that other OPEC+ members would have more room to increase output later this year. Additional supply from OPEC+ will be needed over the second half of this year, with demand expected to continue its recovery.

One concern for the oil market is the lack of investment that we are seeing, and the implications this will have on the oil balance several years out. A good example of this is Angola, where production has been in decline for years now. One might say that OPEC+ cuts are the reason for Angola's declining output. But production is below their agreed output levels under the deal. For example, in May Angola produced around 1.12MMbbls/d, whilst under the deal, they could have produced around 1.28MMbbls/d. So, as we see OPEC+ easing output cuts it is safe to assume that

Angolan oil output is unlikely to increase. If anything, it will probably continue to trend lower. The Angolan government is expecting that their oil output will average 1.19MMbbls/d in 2021, although even that might be a stretch with output averaging roughly 1.15MMbbls/d over the first five months of the year.

Finally, the EIA released its latest Drilling Productivity report yesterday, which continued to show a decline in drilled but uncompleted wells (DUCs) in the US, with the number of DUCs falling by 247 over May, leaving them at their lowest level since September 2018. In fact, since peaking in June 2020, DUCs have declined by 2,353. The decline in DUCs is no surprise given the recovery that we have seen in the market, and this drawdown has also helped to sustain US oil output to a certain extent.

Agriculture

The Agri complex came under pressure yesterday, with corn and soybeans leading the sell-off, and this follows an improvement in the weather forecast in the US. NOAA expects above-normal rainfall and normal temperatures over the next 8-14 days. There had been concerns over warmer and dry weather in the US, and the impact this would have on the US crop. These concerns were reflected in the USDA's latest crop progress report, which showed that 68% of the US corn crop is rated good to excellent, compared to 72% the previous week, and 71% for the same week last year. For soybeans, 62% of the crop is rated good to excellent, compared to 67% last week and 72% at the same stage last year.

Developments in the biofuels market have also weighed on corn and soybean prices, with reports that the US government is discussing options to provide some relief to refiners on the biofuel blending mandate. D6 RIN prices in the US, a key measure for ethanol blending costs for refiners have increased more than three-fold to an average of US\$1.38 this year, compared to an average of US\$0.43 in 2020. Stronger corn and soybean prices along with uncertainty over the biofuel mandate for the year has pushed up blending costs for refiners. Any support measure, if approved, could result in weaker domestic corn and soybean demand in the short term.

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