The Commodities Feed: Oil supply risks

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Energy

Supply risks have been supportive for the oil market over the past couple of days. However, the market has come under pressure in early morning trading in Asia, with US stimulus talks having broken down, and it now looks unlikely that we will see a stimulus package until after the US election.

Shifting back to supply, and we are seeing a number of disruptions in the market at the moment. Strike action in Norway has led to around 330,000 boe/d of oil and gas production having to shut down, and there are plans for an escalation of the strike on 10 October, with more workers planning to go on strike. This risks further fields having to shut. However for now, whilst the 470Mbbls/d Johan Sverdrup field does have some workers striking, production is reportedly unaffected.

In the US, the very active hurricane season continues, with Hurricane Delta forcing some platforms in the US Gulf of Mexico (GOM) to be evacuated. The latest numbers from the Bureau of Safety and Environmental Enforcement show that as of yesterday, a little over 540Mbbls/d of oil production had been shut in, which is equivalent to 29.22% of total US GOM production. On the natural gas side, 8.59% of US GOM production had been shut in. Further offshore production is likely to be shut in as we move through the week. The storm is expected to make landfall sometime around the 10

October, and once again will be a risk to refining capacity in Louisiana. According to EIA numbers, there is 3.7MMbbls/d of refining capacity on the Gulf Coast of Louisiana, although some of this is still offline following Hurricane Laura.

Finally, inventory data from the API shows that US crude oil inventories increased by 951Mbbls over the last week, whilst on the product side, gasoline and distillate fuel oil stocks fell by 867Mbbls and 1.03MMbbls respectively. The more widely followed EIA report will be released later today, and expectations are that crude oil inventories declined by around 1.2MMbbls.

Metals

Precious metals fell sharply yesterday, with spot gold prices declining by 1.85% and failing to hold above the US$1900/oz level; as the USD index strengthened following the breakdown of US stimulus talks. The reaction across asset classes was negative, while the US Fed raised its concerns once again over the economic recovery without any additional fiscal support. Meanwhile, gold imports into India fell to the lowest level in four months, contracting by 59% YoY to 11t in September, while silver imports declined 93% YoY to 20t last month.

Turning to base metals, and copper prices remain well supported, with the possibility of strike action at the Candelaria mine in Chile growing, as one of the unions rejected the final wage offer from management. The Candelaria mine produced 111kt of copper last year. Meanwhile, the surge in LME copper inventories appears to have ended for now, with inventories having actually fallen by a little over 9kt since last Wednesday. The latest LME data also shows that cancelled warrants for aluminium jumped by 63kt (+26%) to 306kt (highest since February) yesterday.

Agriculture

CBOT soybean prices rose to a fresh 2-yr high of almost US$10.54/bu yesterday, while CBOT corn also firmed up on reports of poor crop expectations from Argentina. Buenos Aires Grains Exchange estimates grain production in Argentina to fall significantly in 2020-21 due to the prevailing dry and hot weather. The La Nina formation in the Pacific Ocean brings the risk of drier weather in Latin America until year-end, which has prompted farmers to delay/reduce plantings. The exchange estimates Argentina's corn production to fall 8.7% YoY to 47mt in 2020-21 due to lower acreage, while soybean output is expected to fall from 49.6mt in 2019-20 to 46.5mt in 2020-21. For wheat, the exchange revised down its wheat production estimates to 17.5mt (down 6.9% YoY).

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