

The Commodities Feed: Oil supply risks

Your daily roundup of commodity news and ING views



Source: Shutterstock

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 470Mbbbls/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 540Mbbbls/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 951Mbbbls over the last week, whilst on the product side, gasoline and distillate fuel oil stocks fell by 867Mbbbls 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).

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss

arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.