

The Commodities Feed: Oil supply risks subside

Your daily roundup of commodity news and ING views



Energy

Oil has been under pressure once again this morning, with supply concerns subsiding. In Libya, force majeure at the largest oil field in the country, Sharara was lifted over the weekend, and production is expected to resume shortly. Reports suggest that output will initially be 40Mbbls/d, and that it would take 10 days for output from the field to reach its capacity of 300Mbbls/d. If this turns out to be the case it would take Libyan output back to the region of 600Mbbls/d, and not helping OPEC+ in the task of rebalancing the market.

Meanwhile the labour strikes we saw in Norway last week which led to around 8% of the country's oil and gas output being shut have come to an end. There were concerns that an escalation in the strike action would lead to further fields having to shut this week, including Johan Sverdrup. However with the union having come to a wage agreement, affected production should make a quick return.

The market has largely ignored the impact from Hurricane Delta, which has led to a significant amount of offshore production in the US Gulf of Mexico (GOM) having to shut. According to the Bureau of Safety and Environmental Enforcement, as of Saturday 1.68MMbbls/d of oil production was shut-in, which is a little over 91% of total US GOM oil output. However this production should

start to return, with the hurricane now having passed. Although there are disruptions further downstream, with power outages having affected operations at some refineries, whilst the Colonial pipeline 2, which links refiners in the Gulf Coast to the east coast has also had to shut due to power disruptions. The line predominantly carries distillate fuel.

Finally, what is not helping sentiment, is the flaring up in Covid-19 cases in some parts of Europe, which will certainly raise worries over what this means for the demand recovery. The IEA will be releasing its latest thoughts on the market on Wednesday with its Oil Market Report, and the market will certainly be watching to see what revisions are made to their demand forecasts.

Metals

Base metals ended higher on Friday, with LME copper rising to a two-week high, supported by mine supply disruptions, which started last week in Chile, along with the resumption of US stimulus talks. Supervisors at the Escondida copper mine in Chile rejected the company's final wage offer on Friday, but have entered a final round of mediation talks in order to try avoid a potential strike. Meanwhile, members of a union at the Candelaria copper mine went on a strike on Thursday, as wage negotiations failed to reach any agreement. On the other hand, the Collahuasi copper mine reached an early agreement. Meanwhile, the cash/3m spread for copper flipped into a backwardation of US\$4.5/t on Friday with rising concerns over near-term supply tightness. Turning to aluminium, Alcoa has decided to curtail total production at its San Ciprian aluminium smelter in Spain by the first quarter next year as it is uncompetitive. The smelter has an annual production capacity of 228kt.

As for the latest CFTC data, this shows that speculators continued to trim their net long position in COMEX copper by 6,930 lots over the last reporting week, leaving them with a net long of 69,806 lots as of last Tuesday. For precious metals, speculators increased their net long in COMEX gold by 2,056 lots, to leave them with a net long of 131,009 lots, while they cut their net long in silver by 144 lots.

Agriculture

The USDA's monthly WASDE report on Friday provided fresh support to CBOT soybean and corn prices, with both settling higher on the day. The USDA revised lower its estimates for US soybean ending stocks to 290mn bushels, compared to its previous estimate of 460mn bushels. This revision was on the back of lower production and larger exports. The agency revised down US soybean production estimates from 4.31bn bushels to 4.27bn bushels for 2020/21 on lower acreage. On the other hand, export estimates have been pushed up from 2.1bn bushels to 2.2bn bushels on account of stronger buying interest from China. Globally soybean ending stocks estimates are revised down from 93.6mt to 88.7mt on account of lower production, higher demand, and downside revision in beginning stocks.

Looking at corn, the USDA lowered its estimates for ending stocks in the US to 2.2bn bushels, compared to its previous estimate of 2.5bn bushels, mostly due to a downward revision in beginning stocks for the year and weaker production. Beginning stocks for 2020/21 were revised down from 2.3bn bushels to 2.0bn bushels, while corn production estimates were lowered from 14.9bn bushels to 14.7bn bushels, mostly on the back of lower acreage. Global corn ending stocks estimates were revised down from 306.8mt to 300.5mt.

Finally, UNICA reported that Brazilian sugar mills in the Centre-South region crushed 40.2mt of

sugar cane over the 2nd half of September (up 14.3% YoY) with total sugar production increasing 59.6% YoY to 2.87mt. Dry weather in the country has been helpful for cane harvesting which has been leading to higher crushing. 46.4% of sugar cane was allocated to sugar production compared to 34% a year ago, with sugar prices relatively more attractive than ethanol prices. Cumulative sugar production so far this season stands at 32mt, up 46.25% YoY, whilst the amount of cane crushed is up 5.3% YoY to total 500mt.

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.