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.

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