The Commodities Feed: Saudis cut crude prices

Your daily roundup of commodity news and ING views

Energy

The oil market has come under downward pressure this morning following Saudi Aramco cutting its official selling prices (OSP) for all grades of its crude oil into Asia for October shipment. Aramco's flagship Arab Light into Asia was cut by US$1.30/bbl to US$1.70/bbl above the benchmark. While a decrease was expected by the market, the cut was larger than anticipated. A combination of increased Saudi output and soft demand in Asia appears to have contributed to the decrease. However, OSPs into the US and NW Europe were left unchanged MoM, while all grades into the Med saw cuts for October.

The US oil industry is still struggling to recover from Hurricane Ida. It is now around a week since the storm made landfall in the US Gulf, and yet there is still a significant amount of offshore crude oil production offline. The latest data from the Bureau of Safety and Environmental Enforcement shows that 1.61MMbbls/d of US Gulf of Mexico (GoM) production remains shut in, which is equivalent to 88.32% of US GoM output. Some offshore installations appear to have suffered some damage from the storm, which is delaying the restart. Last week Shell said that there had been damage to its West Delta-143 offshore facilities, and that around 80% of its offshore GoM output remains offline. While the Louisiana Offshore Oil Port (LOOP) as of Saturday had still not returned to operation. LOOP receives crude oil from the US GoM, while it also has a marine terminal for imports and exports. The impact of the storm on oil output and flows is clearly more significant than the market was expecting. The latest rig data from Baker Hughes also shows that Hurricane Ida had an impact on drilling activity, with the rig count last week falling by 16 to 394, which is the largest weekly decline since June last year.

The latest positioning data shows that speculators increased their net long in ICE Brent by 27,930 lots over the last reporting week, leaving them with a net long of 273,894 lots. The increase shouldn't be too much of surprise, given the recovery that we have seen in oil prices in recent weeks. The increase was driven by a combination of both fresh longs and short covering.

European natural gas prices continue to trade near record levels. It is looking increasingly likely that we will start the heating season with inventory levels well below the 5-year average. European gas storage is about 68.45% full, compared to the 2016-2020 average of a little over 84% at this stage of the year. If we were to see gas inventories enter the heating season at the 5-year average we would need to see a daily injection rate of more than 8TWh, which is very unlikely, as these are rates we have not seen in recent years, and is also well above the average daily injection rate of 2.7TWh seen over the summer. To start the heating season at 2018 levels (which was a five year low), we would need to see daily net injections of over 5TWh. Even this looks as though it will be a stretch. The forward curve is providing very little incentive to store gas for the winter, with it basically flat between now and February 2022. It is difficult to see a situation where European gas prices do not remain well supported going into winter.

Metals

The aluminium market has received a boost this morning as supply concerns grow. Although the most recent concerns centre around raw materials, and specifically bauxite. Guinea, which is a key bauxite exporter, witnessed a coup attempt over the weekend, which has led to worries around disruptions in bauxite supply. Special forces in the West African nation have claimed to have seized power and arrested the president. In addition they have reportedly implemented a curfew and shut land and air borders. Guinea is the world's third largest bauxite producer, and is also a key supplier to China. In the first seven months of 2021, 55% of China's bauxite imports originated from Guinea.

Workers at JX Nippon's Caserones copper mine in Chile accepted the latest wage offer from the miner over the weekend, which brings to an end strike action which lasted almost one month. This follows workers at Codelco's Andina mine also ending strike action last week. This should help alleviate some concerns over mine supply in the near term.

Spot gold prices settled 1% higher on Friday and hit levels last seen in mid-July. The rally shouldn't come as too much of a surprise, given the poor US jobs report. The data was a clear miss and also suggests that a September Fed taper announcement is unlikely, which should prove supportive for gold prices.

Agriculture

Money managers trimmed their net long position in CBOT grains for a second consecutive week as hurricane Ida disrupted exports from the US and weighed on market sentiment. CFTC data shows that money managers reduced their net long position in CBOT corn by 12,209 lots over the last week, leaving them with a net long position of 258,785 lots as of 31 August. For soybeans, money managers reduced their net long position by 14,084 lots over the last week. The speculative net long in CBOT soybean has dropped to a 1-year low of 69,141 lots as of 31 August.

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