

The Commodities Feed: Uncertainty over Saudi oil

Your daily roundup of commodity news and ING views



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Energy

Uncertainty over Saudi oil – ICE Brent prices settled yesterday with a gain of around 15%, the largest one-day price increase in at least two decades, after Saudi Arabia reported a supply loss of nearly 5.7MMbbls/d. Saudi Aramco is still reported to be assessing the damage on the plants; however, a quick restoration of full capacity can probably be ruled out. The latest market reports suggest that the company may restore some of the capacity quickly (within a matter of days) but a significant part of the impacted capacity could take weeks or even months to repair and restore completely. Saudi Arabia said that it will use existing inventories to fill the supply gap; however, as we discussed earlier, inventories have already been depleted this year due to output cuts and the supply gap could be overwhelming if the current output disruptions are prolonged.

US shale – In its Drilling Productivity Report released yesterday, the EIA estimated that US shale oil production will increase by 74MMbbls/d MoM in October 2019 with output rising to 8.84MMbbls/d. The Permian basin is expected to see output increasing by 71MMbbls/d while other shale fields will increase output by a marginal 3MMbbls/d. Meanwhile, the count of Drilled but Uncompleted wells dropped further to 7,950 at the end of August 2019, falling by 142 over the month. DUC inventory

has now dropped for the sixth consecutive month, falling by 296 from the peak in March 2019 as oil producers concentrate on completing wells rather than drilling new wells. Turning to oil inventory and the API is scheduled to release its weekly report later today and market expectations are that US crude oil inventories dropped by 2.1MMbbls last week, according to a Bloomberg survey.

Metals

China metals output – Data from the National Bureau of Statistics shows that China's aluminium production softened further due to output disruptions at some of the smelting plants. China Hongqiao Group has suspended some of the smelting capacity due to floods in the Shandong province while Xinfu group halted some 500kt pa capacity due to an incident at its smelter in Xinjiang province. China's aluminium output dropped 0.4% month-on-month to 95.8kt/day in August 2019, compared to 96.1kt/day in July and significantly down compared to the peak of 99.1kt/day in June 2019. Moving forward, domestic aluminium production could remain under pressure for the rest of 2019 due to slow capacity restart and winter cuts in 4Q19. We continue to expect a tight Chinese aluminium market in 2H19, which should be supportive to LME aluminium prices.

Meanwhile, the output of Nickel Pig Iron (NPI) in China rose to a record high of 53.6kt in August 2019 (+36% year-on-year) as domestic producers increased operating rates ahead of the planned ban on Indonesian nickel ore export, which may limit the availability of raw materials in 2020. China's NPI output could remain strong for the rest of the year as Indonesian ore shipments are brought forward before the export ban.

Agriculture

US crop progress – The weekly crop progress report from the USDA shows that 55% of the current corn crop in the US was in good-to-excellent condition as of last week, flat on a weekly basis but down compared to 68% a year ago. On the other hand, corn harvesting has started at a good pace with 8% of the crop harvested as of 15 September compared to 4% at this stage last year and the five-year average of 7% for this time of the year. Meanwhile, the USDA report shows that the soybean crop condition deteriorated last week with the agency now rating 54% of the soybean crop in good-to-excellent condition compared to 55% in the preceding week and 67% last year.

Daily price update

	Current	% DoD ch	%YTD ch		Current	% DoD ch	%YTD ch
ICE Brent (US\$/bbl)	69.02	14.61	28.29	Spot Gold (US\$/oz)	1,498.4	0.67	16.84
NYMEX WTI (US\$/bbl)	62.9	14.68	38.52	Spot Silver (US\$/oz)	17.9	2.33	15.21
ICE Gasoil (US\$/t)	637	10.44	24.77	LME Copper (US\$/t)	5,870	-1.75	-1.59
NYMEX HO (Usc/g)	208	10.97	23.98	LME Aluminium (US\$/t)	1,793	-0.94	-2.87
Eurobob (US\$/t)	605	6.51	26.12	LME Zinc (US\$/t)	2,365	-0.84	-4.13
NYMEX RBOB (Usc/g)	175	12.83	32.39	LME Nickel (US\$/t)	17,370	-2.14	62.49
NYMEX NG (US\$/mmbtu)	2.68	2.56	-8.81				
TTF Natural Gas (EUR/MWh)	15.33	4.23	-30.24	CBOT Corn (Usc/bu)	374	5.20	-0.27
				CBOT Wheat (Usc/bu)	489	0.62	-2.88
API2 Coal (US\$/t)	65	3.44	-24.90	CBOT Soybeans (Usc/bu)	900	1.72	1.98
Newcastle Coal (US\$/t)	71	1.81	-30.47	ICE No.11 Sugar (Usc/lb)	11.09	1.84	-7.81
SGX TSI Coking Coal (US\$/t)	142	-4.95	-32.94	ICE Arabica (Usc/lb)	101	1.31	-1.03
SGX Iron Ore 62% (US\$/t)	94.45	-1.86	35.96	ICE London Cocoa (GBP/t)	1,821	7.31	3.11

Source: Bloomberg, ING

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