The Commodities Feed: Energy starts 2024 on a softer note

Energy markets started the new year weaker with both oil and gas prices coming under pressure yesterday. This is despite growing tensions in the Middle East

Energy – Oil starts the year weaker

The oil market started the first trading day of 2024 on a softer note with ICE Brent settling almost 1.5% lower yesterday. Energy markets were unable to escape the broader pressure seen on risk assets with equity markets also weaker. The weakness in oil comes despite a ratcheting up in tensions in the Middle East. Iran has sent a warship to the Red Sea after the US sunk several Houthi boats in the region, following a number of attacks on commercial ships by the Houthis. While the geopolitical situation is a concern for the oil market, a fairly comfortable oil balance over the first half of 2024 does help to ease some of these worries.

OPEC+ will hold a Joint Ministerial Monitoring Committee meeting in early February, according to Bloomberg. The group will be keen to discuss the state of the oil market, particularly given the price action seen following the announcement of deeper cuts last month from a handful of members. However, given the scale of cuts we are already seeing, it will be increasingly difficult for the group to cut more if needed over the course of 2024. Already, the last few rounds of cuts have been driven by voluntary reductions from individual members rather than group wide cuts – a sign that it is becoming more difficult to get all members on board to cut.

European gas prices have come under significant pressure, with TTF settling 5.5% lower yesterday and at its lowest levels since August. This weakness comes despite forecasts for colder weather later in the week. However, storage remains very comfortable with it a little more than 86% full, which is above the 83.5% seen at the same stage last year. In the absence of any supply shocks or demand surge, it is looking likely that European storage will finish the 2023/24 heating season around 50% full, which suggests limited upside for prices.

Metals – Gold starts 2024 on a strong footing

Gold held up relatively well in the first trading day of the year, despite a stronger USD and move higher in US treasury yields. Later this week, the market will be watching US data releases, including jobs data that may influence the Fed's monetary policy path and could add to gold's upward momentum. We believe that the Fed policy will remain key to the outlook for gold prices in the months ahead. The precious metal is likely to keep on building on last year's gains (+13% and a first annual gain in three years) and we expect prices to reach record highs this year on the assumption that the Fed starts cutting rates in the second quarter of the year, the dollar weakens, safe-haven demand continues amid global economic uncertainty and central bank buying remains at high levels.

Agriculture – Indian sugar output falls

Recent data from the National Federation of Cooperative Sugar Factories Ltd. shows that sugar production in India fell by 7.6% year-on-year to 11.2mt between 1 October - 31 December, lower than the 12.1mt produced over the same period last year. Around 511 sugar mills were crushing cane as of 31 December, down from 514 mills last year.

The latest data from Ukraine's Agriculture Ministry shows that grain exports so far in the 2023/24 season stood at 18.4mt as of 2 January, a decline of 20% year-on-year. Total corn shipments stood at 9.6mt, down 24% YoY, while wheat exports fell 10% YoY to 7.6mt. The fall in exports is in line with the series of obstacles Ukrainian shipments have faced recently.

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