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The Commodities Feed: European gas and Asian LNG surge after Qatar halts operations

Oil markets traded higher yesterday following the escalation in the Middle East. Meanwhile, European gas prices surged after Qatar halted LNG operations



Energy- Duration of disruptions key for energy markets

The oil market pared some of its initial gains yesterday, with Brent settling 7.26% higher on the day after initially trading as much as 13.6% higher. The market continues to digest the risk of escalation in the Middle East. While there are concerns about oil flows through the Strait of Hormuz, a greater risk to the market would be Iran targeting additional energy infrastructure in the region. This could lead to more prolonged outages.

Oil price movements have been fairly modest, given the amount of supply at risk and uncertainty about how long disruptions could persist. Part of the explanation: the market had already been pricing in a fairly large risk premium in the lead-up to these attacks. Also, the market appears to be pricing in a relatively short-lived disruption to oil flows through the Strait of Hormuz, which the large surplus markets expect this year should be able to absorb.

Clearly, supply disruptions leave significant tightness in the prompt market, as reflected in timespreads. The 12-month ICE Brent is surging from less than US\$5/bbl to a little over US\$9.50/bbl backwardation. The May/Jun spread surged towards a US\$1.60/bbl backwardation.

Secretary of State Marco Rubio said that the US will announce plans on Tuesday to mitigate higher energy costs. At the same time, though, there have been reports that the US has no immediate plan to release oil from its strategic petroleum reserve. The longer the Middle East disruptions last, the more likely we are to see coordinated emergency releases from several countries.

The middle distillate market saw significant strength. The ICE gasoil market settled almost 18% higher yesterday, while the gasoil crack surged above \$36/bbl. At risk is 6m b/d of refined product flows through the Strait of Hormuz. Disruptions in crude oil flows also pose risks to refinery runs in other regions. Furthermore, the 550k b/d Ras Tanura refinery, the largest in Saudi Arabia, halted operations due to limited damage from debris of an intercepted drone.

Yet the most aggressive move was in the European gas market, with TTF surging as much as 54% at one stage yesterday. This saw the market trade just shy of EUR50/MWh. Even so, the market finished the day a little more than 39% higher. Around 20% of global LNG trade moves through the Strait of Hormuz. This is a clear risk for global gas markets. An announcement from Qatar Energy that it was halting LNG operations amid an attack only added fuel to the fire. Though plant operations would have had to be scaled back regardless, should vessel flows through the Strait of Hormuz persist. [As we highlighted ahead of yesterday's market open](#), the gas market was vulnerable to a larger spike. This is because the global LNG market and EU gas storage are relatively tight, and Qatari LNG faces significant supply risks.

Metals – Precious metals volatility

Gold and silver rallied sharply at the start of the week before reversing in afternoon trade following the weekend's escalation between the US, Israel and Iran. Silver was particularly volatile, surging to just below \$100/oz during Asian trading hours before tumbling to around \$86/oz. This suggests near-term profit-taking following the recent outsized move. Gold briefly traded above \$5,400/oz as the trading day opened before slipping back below \$5,200/oz in the afternoon.

Relative to gold, silver continues to exhibit significantly higher volatility, with positioning and thinner liquidity amplifying intraday swings. Gold price action remains comparatively more stable, consistent with its role as the preferred hedge in a risk-off environment.

In base metals, Middle East tensions bring [aluminium supply risks back into focus](#), given that around 8% of global production is concentrated in the Gulf and heavily reliant on shipping through the Strait of Hormuz. LME aluminium prices jumped as much as 3.5% in Monday's

trading. While an outright supply shock remains a tail risk, the more immediate impact is via logistics, freight and insurance costs, which are likely to feed through to physical premiums rather than LME prices.

More broadly for the metals complex, higher energy prices and supply chain risks add inflationary pressure, though dollar strength could cap the upside.

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