

The Commodities Feed: Geopolitical risks linger

Markets remain nervous about developments in the Middle East. Clearly, price direction in the short term will be largely influenced over how the situation in the region evolves



Energy – Speculators boost net long in oil

Price direction in the oil market continues to be dictated by developments in the Middle East with concerns over the potential for the Israel-Hamas conflict to spread. Despite Brent settling marginally lower on Friday, the market still managed to settle 1.4% higher over the course of last week. This morning prices have trended lower with Israel's ground operation into Gaza appearing to have been delayed. However, Brent continues to trade above US\$91/bbl.

Given the growing geopolitical risk in the Middle East, it is no surprise that speculators boosted their net long in ICE Brent over the last reporting week. The net long increased by 74,288 lots to 227,462 lots as of last Tuesday, which is the largest weekly increase since December 2016. The move was predominantly driven by fresh buying with the gross long increasing by 45,089 lots, whilst there was also a fair amount of short covering with the gross short declining by 29,199 lots over the reporting week.

The oil calendar for this week is fairly light. There will be the usual weekly inventory reports, whilst

the IEA will also release its World Energy Outlook on Tuesday, which will cover long term energy supply and demand trends. However, while the calendar may be relatively quiet this week, the market will likely remain fully focussed on developments in the Middle East.

In the natural gas market there are reports that the EU is looking at potentially extending the temporary emergency price cap for TTF, given concerns going into the winter with the Israel-Hamas conflict and the sabotage of the Balticconnector pipeline. The price cap came into force on 15 February 2023 and only applies for one year. It is activated if TTF trades above EUR180/MWh for three days, and if TTF trades at a EUR35/MWh or more premium to global LNG markets over the same three day period.

Metals – Gold rally continues on safe haven demand

Spot gold continued to rally on Friday amid ongoing tensions in the Middle East. The market managed to settle more than 2.5% higher over the course of last week and trade to an intra-day high of a little more than US\$1,997/oz. Despite the strength in the market, ETF holdings still saw their 21st consecutive week of outflows – although COMEX gold has seen a lot more speculative interest, with the speculative net long increasing by 56,655 lots over the reporting week to 41,867 lots. The bulk of this increase was driven by short covering with the gross short falling by 34,949 lots.

The latest numbers from the International Aluminium Institute show that the average daily global primary aluminium output rose to 195.7kt in September, marginally up from 195.2kt a month earlier. Total monthly output rose 2.7% year-on-year to 5.87mt last month but declined 3% month-on-month. Meanwhile, cumulative aluminium production rose 1.8% YoY to 52.4mt in the first nine months of the year. Similarly, Chinese output increased 4.1% YoY to 3.5mt in September, while year-to-date production rose 2.7% YoY to 30.9mt. Production in Western and Central Europe fell 6% YoY and 3% MoM to 223kt, while year-to-date output fell 8.7% YoY to 2mt from January 2023 to September 2023.

Agriculture – Wheat supply concerns

CBOT wheat futures broke above US\$6/bu on Friday but failed to hold onto gains and in fact settled lower. There have been increased supply concerns in the wheat market recently. Dry weather conditions in Australia are weighing on production estimates, whilst the Buenos Aires Grain Exchange reported that Argentina's wheat crop conditions are deteriorating with 47% of plantings rated in poor to very poor condition, an increase of 5pp from last week.

Recent data from Ukraine's Agriculture Ministry shows that total grain exports for the season fell by 30% YoY to 8mt as of 20 October. This includes wheat exports of 4.1mt (-6.7% YoY) and 3.2mt of corn (-49% YoY). While exports suffer, production is doing well. In a separate data release, the Agriculture Ministry said that Ukraine's grain harvest so far for this season rose by 35% YoY to 39.2mt as of 20 October.

The latest CFTC data shows that money managers decreased their net short in CBOT corn by 3,821 lots to 108,870 lots as of 17 October. Similarly, speculators decreased their net bullish bets in soybeans by 4,150 lots to 1,984 lots- the lowest since April 2020. The move was fueled by a rise in gross shorts. Meanwhile, there were only marginal changes in speculative positioning for CBOT wheat.

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