The Commodities Feed: Geopolitical risks reignite

Oil prices have rallied as Middle East tensions mount, while a weaker USD provided further support to oil and the broader commodities complex

Source: iStock

Energy – Geopolitical risks grow

Oil prices rallied yesterday as Middle East tensions grew over the assassination of Hamas' political leader on a visit to Iran. ICE Brent settled more than 3.5% higher on the day. While Israel has not claimed responsibility for the assassination, Iran has said that it will retaliate as the assassination took place on Iranian soil. The region and oil market will now be on tenterhooks to see how and if Iran retaliates. Iran's new President had previously said that he would strive to normalise economic and international relations through the lifting of US sanctions. If so, the Iranian regime might try to take a more measured response that does not jeopardise this aim. Either way, the market will likely need to price in a larger geopolitical risk premium until these tensions subside.

The EIA's weekly inventory report showed that US commercial crude oil inventories fell by 3.44m barrels over the last week despite refiners cutting run rates by 1.5pp. This was driven by the Midwest with an outage at the Joliet refinery. Stronger crude oil exports would have contributed to the draw, growing 733k b/d WoW. Gasoline inventories declined by 3.67m barrels, which took stocks to their lowest level since December. Lower refinery runs also offset a WoW decline in implied gasoline demand. However, implied demand continues to trend above seasonal levels. For distillates, stocks increased by 1.53m barrels over the week.

The OPEC+ Joint Ministerial Monitoring Committee will meet today. While this committee cannot change output policy, it can recommend changes it feels necessary. However, expectations going into the meeting are that they will recommend no change.

Agriculture – Ukrainian grain crop estimates cut

The Ukraine Grain Association expects domestic corn production to fall by 8.2% YoY to 23.4mt for the 2024 season, while wheat estimates were also lowered by 10% YoY to 19.8mt. The decrease in estimates was primarily due to drought conditions impacting crop yields.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com