The Commodities Feed: Israel responds, oil sells off

Oil prices sold off this morning following Israel's response to Iran's recent missile attack. The measured and targeted response from Israel has increased hopes of de-escalation

Energy – Oil sells off following Israel response

Oil prices opened this morning lower with ICE Brent trading more than 4% lower at the time of writing, taking the market back below $73/bbl. This weakness comes despite Israel finally responding over the weekend to Iran's recent missile attack. However, Israel's response appears to have been measured with only Iranian air defence and missile production facilities targeted. The concern for the market had been if Israel targeted Iran's energy or nuclear infrastructure. The more targeted response from Israel leaves the door open for de-escalation and clearly the price action in oil this morning suggests the market is of the same view. While it is still unclear if or how Iran may retaliate, the government has downplayed the damage caused by Israel's response. The Iranian supreme leader has said that the attack should not be "exaggerated or downplayed". Clearly, if we do see some de-escalation it would allow fundamentals once again to dictate price direction. And with a surplus market over 2025, this would mean that oil prices are likely to remain under pressure.

The latest positioning data for ICE Brent showed little change in the managed money net long over the last week. Speculators reduced their net long by 1,941 lots to 134,581 lots as of last Tuesday. The lack of movement shows that speculators have been torn between growing geopolitical risks and bearish 2025 fundamentals. As for refined products, speculators remain bearish on middle distillates. The positioning data shows that speculators increased their net short in ICE gasoil by 10,777 lots to 41,786 lots. Similarly, for NYMEX ULSD, the managed money net short increased by 3,826 lots to 26,314 lots. Weak demand, growing Middle Eastern supply and comfortable inventory levels continue to keep pressure on middle distillates.

European natural gas prices strengthened on Friday. TTF settled more than 3.2% higher on the day taking prices a little over EUR43.5/MWh, the highest year-to-date level. Forecasts for colder weather at the end of this week, a relatively small outage in Norway, along with Middle Eastern tensions, have provided upside to the market. Although with broader markets of the view that we could possibly see some de-escalation in the Middle East following developments over the weekend, gas prices may trade lower today. However, the other factor which is offering support to the market is that last week we saw several days of marginal storage draws, and so storage will start the heating season slightly below where we would have expected it to be. But at more than 95% full these are still very comfortable levels, just not as comfortable as we were initially expecting.

Agriculture – UNICA report higher sugar cane crush

The latest fortnightly report from the UNICA shows that sugar cane crushing in Centre-South Brazil stood at 33.8mt over the first half of October, compared to 32.9mt during the same period last year. The cumulative sugar cane crush for the season as of mid-October rose 2.4% year-on-year to 538.8mt. Meanwhile, sugar production rose by 8% YoY to 2.4mt over the first half of October. Around 47.3% of cane was allocated to sugar production in the fortnight, lower than the 48.1% allocated for sugar production in the same period last year. Cumulative sugar output so far this season is 35.6mt, up 1.9% YoY.

France's Agriculture Ministry said that around 25% of the corn crop was harvested as of 21 October, well below the five-year average of 69%. The Ministry reported that 75% of the corn was rated in good to very good condition, down from 78% in the previous week and 83% a year earlier. Meanwhile, about 21% of the French soft wheat was planted for the above-mentioned period, compared with a five-year average of 47%.

The latest CFTC data show that money managers increased their net short position in CBOT soybeans by 19,233 lots to 59,574 lots as of 22 October. The move was dominated by fresh shorts with the gross short position increasing by 18,631 lots to 152,610 lots. Similarly, speculators increased their bearish bets in wheat by 2,902 lots over the last week, leaving them with a net short position of 28,915 lots. The net speculative short position in CBOT corn fell by 15,489 lots to 71,499 lots over the reporting week. Strong US corn export sales data last week may drive further short covering.

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