

The Commodities Feed: It's all about the yields

The 'higher-for-longer' narrative for rates is pressuring the commodities complex, while the accompanying USD strength is adding further pressure



Period	Coupon	Yield		
1 Year	2.10 %	2.16 %	▲	+ 12
2 Year	2.45 %	2.52 %	▲	+ 17
5 Year	3.80 %	3.86 %	▲	+ 23
7 Year	4.20 %	4.37 %	▲	+ 1
10 Year	4.65 %	4.72 %	▲	+

Energy - Steady OPEC output

The oil market struggled yesterday. ICE Brent settled a little more than 1.6% lower on the day as rising treasury yields and USD strength proved to be too much of an obstacle for the market. Technically, the Brent December contract still needs to fill the gap left following the November contract expiry on Friday. If that happens, it would take the front-month contract back above US\$95/bbl.

Preliminary OPEC production data for September is starting to come through. The Bloomberg survey showed that output increased by 50Mbbls/d MoM to 27.97MMbbls/d. Nigeria showed the largest increase over the month. Their supply grew by 60Mbbls/d, while Iran saw a marginal pullback in output of 50Mbbls/d. Output is likely to remain relatively steady over October. Further out, the market will be focused on any sign that Saudi Arabia is starting to unwind its voluntary additional supply cuts.

There was a bit more noise yesterday around the resumption of Northern Iraqi oil flows through

the Ceyhan pipeline. Turkey has said that flows could resume this week. However Iraqi officials have thrown cold water on the idea, saying that there are still some issues that need to be resolved before this can happen. The pipeline can carry almost 500Mbbbls/d of crude oil from the Kurdish region to the Ceyhan export terminal. Flows were suspended back in March after the Iraqi government won an international arbitration ruling, stating that these flows were occurring without approval from the Iraqi government.

Metals - Gold plunges to seven-month low

Gold plunged to its lowest level since March yesterday - edging closer to US\$1,800/oz, as treasury yields continued to move higher and the USD also strengthened. The higher-for-longer narrative has been putting significant pressure on gold, which is leading to a significant reduction in investment appetite reflected by the large declines in gold ETF holdings in recent months. Fed policy will remain key to the outlook for gold prices in the months ahead.

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