

The Commodities Feed: Linger supply risks

The oil market started the week on a weak footing. However, geopolitical risks remain elevated and the short-term outlook remains dependent on developments in the Middle East



Energy - supply risks remain

The oil market came under significant pressure yesterday with ICE Brent settling 3.35% lower on the day, while WTI traded down to its lowest level since the Israel-Hamas conflict. This is despite the fact that there are clear upside risks still facing the market in the current geopolitical environment. Disruptions to Iranian oil flows remain the most obvious risk to the market, which could see anywhere between 500k b/d and 1m b/d of supply lost if the US were to strictly enforce sanctions once again. Up until now, developments in the Middle East have yet to impact oil supply. In the absence of supply disruptions from the region, it is difficult to see a significant and sustained upside in prices.

Also important for the market are developments in Venezuela. Recently, the US decided to ease sanctions against Venezuela in return for the promise of fairer elections in 2024. The expectation was that the lifting of these sanctions could see Venezuela increase its oil supply in the region of 200k b/d. However, overnight, the supreme court in Venezuela suspended the results of the opposition's primary elections, which will likely call into question whether the sanctions relief

provided to Venezuela will remain in place.

On the calendar for today, December Brent futures expire and the API will also release weekly US inventory data. In addition, markets will await China's official PMI data which will be released this morning. Expectations are for the manufacturing PMI to come in at 50.2 for October, unchanged from the previous month. A second consecutive reading in expansion territory will likely go down well with markets, showing some further signs of firming by the Chinese economy.

Metals – Iron ore supply risks

Iron ore prices saw some further strength yesterday with the market rallying by a little more than 1.7%, taking it above \$121/t. On the demand side, there appears to be a bit more optimism around China. But there are also growing supply risks, namely, potential strike action in Australia. Train drivers at BHP operations in Western Australia voted in favour of taking protected industrial action. The current agreement covers about 500 train drivers carrying iron ore from BHP's Pilbara mines around Newman to Port Hedland. Hence, any strike action could lead to supply disruptions.

Agriculture - US harvest progress

The USDA's weekly crop progress report for the week ending 29 October shows that 71% of the US corn crop was harvested, down from 74% at the same stage last year. However, it was above the five-year average of 66%. Similarly, 85% of the US soybean area was harvested, down from 87% at the same stage last year, but higher than the five-year average of 78%. Finally, 84% of the winter wheat area has been planted, down from 86% at the same stage last year and slightly lower than the 5-year average of 85%.

Weekly export inspection data from the USDA for the week ending 26 October shows that US corn and wheat inspections rose, while soybean exports eased over the last week. Export inspections of corn stood at 531.5kt, up from 449.3kt in the previous week and 445.7kt reported a year ago. Similarly, US wheat export inspections stood at 189.8kt, above 169.5kt a week ago, and also higher than 137.1kt seen last year. For soybeans, US export inspections stood at 1,890.2kt, down from 2,625.7kt a week ago and 2,586.2kt for the same period last year.

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