

The Commodities Feed: Markets await Israeli response

Broader markets, including oil, continue to wait and see how Israel responds to Iran's recent missile attack. There are suggestions that Iranian oil infrastructure could potentially be targeted



Energy – Iranian supply risk & Saudi unhappiness

Oil prices continued their move higher yesterday amid the uncertainty over how Israel will respond to Iran's missile attack. At one stage yesterday, ICE Brent was up as much as 3.5% and broke above US\$76/bbl. However, the market was unable to hold onto all of these gains, finishing the day less than 0.5% higher. The fizzling out of the rally is somewhat surprising, given the increased risk facing the oil market. There have been suggestions that Israel could target Iranian oil facilities, which would have the potential to push oil prices significantly higher depending on the scale of the attack. Iran exports roughly 1.7m b/d of crude oil, so the potential impact is meaningful. However, an attack on oil facilities may upset the US, particularly as we move closer to elections. As mentioned yesterday, a more limited response would be hitting launch sites used for the recent missile attack, while a significant escalation would be if Israel decided to target Iranian nuclear facilities.

There is clearly still plenty of uncertainty and this is highlighted in the trading activity seen

yesterday in the options market. Traded volumes in Brent Dec-24 \$100/bbl calls hit almost 52m barrels, up significantly from the nearly 13m barrels traded the previous day for the same strike.

OPEC+ also held its Joint Ministerial Monitoring Committee (JMMC) meeting yesterday. The group recommended no change to its output policy. Instead, the focus of the meeting appeared to be on compliance and ensuring the likes of Iraq, Kazakhstan and Russia make up for producing above their target levels for much of the year. There were also reports that Saudi Arabia previously warned members that oil prices could fall to as low as \$50/bbl if members do not stick to their production targets, a possible warning that if other members do not follow the deal, the Saudis would be willing to start a price war.

Finally, weekly EIA data was bearish. US crude oil inventories increased by 3.89m barrels over the last week, compared to expectations for a decline of around 1.5m barrels. In addition, Cushing crude oil stocks increased by 840k barrels, which may help ease some concerns over hitting tank bottoms. The build was driven by lower refinery run rates, utilisation fell by 3.3pp over the week, which saw crude oil inputs fall by 662k b/d. Despite lower refinery activity, gasoline stocks still increased by 1.12m barrels as gasoline demand continued to trend lower with implied gasoline demand falling 684k b/d WoW. Meanwhile, distillate stocks fell by 1.28m barrels over the week.

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