The Commodities Feed: Middle East escalation

Oil prices rallied after Iran's missile strike on Israel. Attention is now fully on how Israel will respond to this latest attack. The more Iran gets directly involved in this conflict the greater the risk of oil supply disruptions

Israel's Iron Dome air defence system intercepts Iranian projectiles over Tel Aviv

Energy – Supply risks build

Oil prices rallied yesterday and this strength has continued in early morning trading today following Iran's missile attack on Israel overnight. ICE Brent settled almost 2.5% higher yesterday. The attack appears to have been largely ineffective with Israel's iron dome intercepting the majority of missiles. While Iran has said it has concluded its actions, the market is more concerned about how Israel will now respond, something it has promised to do. Obviously, the more Iran gets directly involved in the oil market, the greater the risk of seeing actual supply disruptions.

Given developments though, the price action still seems fairly modest. This likely reflects the fact that the market has become increasingly numb to developments in the Middle East, which have dragged on for almost a year. However, actual supply disruptions would change this.

The key uncertainty now is how Israel will respond. Back in April, the Israeli response to an Iranian missile and drone attack was targeted and measured with an airbase hit. There are several routes Israel could take this time. It could take similar action to April and target military infrastructure, possibly the launch sites for the recent missile attack. Significant escalation would likely involve targeting Iranian nuclear facilities and energy infrastructure, which would likely boost the risk premium priced into the oil market. The US will likely try to push Israel for a more modest response, wanting to avoid a significant escalation in tensions.

Moving on, preliminary OPEC production numbers for September are starting to come through. Bloomberg's OPEC survey shows that the group's production fell by 480k b/d MoM to 26.61m b/d. This reduction was largely driven by Libya where a dispute between the Tripoli-based government and the eastern-based government led to oil production being shut-in. However, with the eastern government having now approved the governor of the central bank, supply is set to recover.

Numbers overnight from the API showed that US crude oil inventories fell by 1.5m barrels over the last week, roughly in line with market expectations. Meanwhile, gasoline stocks increased by 900k barrels, while distillate stocks fell by 2.7m barrels over the week. The more widely followed EIA report will be released later today.

OPEC+ will also hold its Joint Ministerial Monitoring Committee (JMMC) meeting today. Given that a handful of OPEC+ members previously agreed to continue with their full additional voluntary cuts until the end of November, we do not expect the committee to recommend any change to output policy.

Agriculture – Coffee declines on favourable weather

Arabica coffee prices fell by more than 2.2% yesterday on reports of improving weather conditions in Brazil. Recent reports suggest that rainfall over the last few days in Brazil has helped the plants to flower, easing some production fears. However, it is too early to tell, and the region will require more rain to prevent yield losses.

Ukraine's Agriculture Ministry reported that winter grain plantings stood at 1.85m hectares as of 1 October, largely in line with the 1.9m hectares planted at the same stage last year. This includes winter wheat plantings of 1.7m hectares, which is slightly down from the 1.74m hectares seen at the same stage last year.

The latest data from the European Commission shows that EU soft-wheat exports for the 2024/25 season stood at 6.1mt as of 29 September, down 26% YoY. This decline is largely driven by France, where excessive rains have impacted the crop. Meanwhile, EU corn imports stand at 5.2mt, up 13% compared to a year ago.

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