

The Commodities Feed: Middle East re-escalation pushes oil prices higher

A re-escalation of tensions in the Persian Gulf pushed oil and gas prices higher as the market once again reprices the duration of supply disruptions from the region



Energy - Tensions re-emerge in the Middle East

We are seeing the first signs of the ceasefire between the US and Iran breaking down amid a re-escalation in the Persian Gulf. ICE Brent rallied 5.8% yesterday to settle above \$114/bbl. The US struck a number of Iranian boats. There are claims that Iran struck a US warship, which the US has denied. In addition, Iran has resumed attacks on infrastructure in neighbouring countries, with the UAE intercepting several Iranian missiles, while Fujairah port was hit by a drone. This port is important for UAE oil exports. It is situated outside the Strait of Hormuz, which allowed oil exports to continue (and, in fact, to increase) despite the war and blockade of the Strait. Prior to the ceasefire, Fujairah was targeted several times. Even so, oil loadings continued largely unaffected, with only temporary halts. LSEG data shows that crude oil exports from Fujairah totalled nearly 1.7m b/d in April.

This re-escalation comes at a time when the US has started guiding commercial vessels through the Strait of Hormuz, under "Project Freedom". Two US-flagged commercial vessels have passed

through the Strait of Hormuz under the plan, according to the US. Clearly, continuation of “Project Freedom” risks further escalation. Any relief from stranded vessels making their way through the Strait will be temporary, with very few inbound vessels moving into the Persian Gulf.

Markets may find some relief today following President Trump’s overnight comments suggesting the conflict could continue for another two to three weeks. However, markets are likely to view this with considerable scepticism, given the recent escalation and the repeated extensions of projected timelines for ending hostilities since the conflict began.

European gas prices also moved higher yesterday following the escalation in the Persian Gulf. TTF settled 5.7% higher on the day and at its highest level since early April. While EU LNG imports in April fell from record levels in March, LNG send-outs remain seasonally high, which has kept EU gas storage trending higher, approaching 34% full vs a 5-year average of almost 46% full. We continue to believe the European gas market and Asian LNG market are underpricing the scale of the supply impact we are seeing from the Persian Gulf. There is little the global gas market can do to offset Persian Gulf LNG supply losses other than to see further demand destruction, and to do that, higher prices are needed.

Metals – Pressure remains on gold

Gold extended its decline for a second straight session, with spot prices hovering near \$4,500/oz yesterday, as US Treasury yields moved higher amid the rally in oil prices. Higher energy prices mean inflation concerns are only growing, suggesting that rates will remain higher than originally anticipated. This has weighed on non-yielding assets, such as gold. Meanwhile, the broader strength in the USD will only add further pressure. ETF holdings in gold have fallen by more than 2.2% since the start of hostilities in the Persian Gulf, while the managed money net long in COMEX gold is at its lowest level since February 2024. For now, the gold market appears less focused on the lingering geopolitical risk and more on rising Treasury yields.

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