

The Commodities Feed: Middle East risks linger

After the sell-off in oil last week, markets have opened slightly stronger today following further US and UK attacks against the Houthis over the weekend



Energy - Middle distillate support

The oil market saw a significant amount of weakness last week with ICE Brent selling off more than 7.4% which took it firmly back below US\$80/bbl. Hopes of a ceasefire between Israel and Hamas drove some of this weakness. However, for now, a ceasefire does not appear imminent. A much stronger-than-expected US jobs report on Friday would also have added some pressure, calling into question whether the US Fed will start to cut rates anytime soon. However, this morning, oil has opened stronger after further US and UK attacks on the Houthis over the weekend, which the Houthis have said they will retaliate against. While, developments in the Red Sea are having an impact on some physical markets, on the whole, oil supply remains unaffected. Furthermore, the oil market is largely balanced in 1Q24 and OPEC is sitting on a large amount of spare capacity, leaving the market fairly comfortable. However, this could quickly change if tensions spread to other parts of the Middle East.

Middle distillates remain relatively well supported with the ICE gasoil crack remaining around the

US\$30/bbl level. Longer shipping times for middle distillates from the Middle East and Asia into Europe are leading to some tightness in Europe. Europe has become increasingly reliant on middle distillates from Asia and the Middle East since the EU ban on Russian oil and refined products.

The latest positioning data shows that speculators increased their net long in ICE Brent by 53,269 lots over the last reporting week to 261,416 lots as of last Tuesday - the largest position held since September. However, given that the bulk of this move was made up of fresh buying and considering the price action in Brent since last Tuesday, it is likely that a large amount of these fresh longs have already liquidated.

While European natural gas prices have seen some strength recently, the market is likely to see limited upside. TTF continues to trade below EUR30/MWh and with storage more than 69% full (versus a 5-year average of 56%) we continue to believe that Europe will exit this heating season with very comfortable storage. In the absence of any supply shocks or demand spikes, we see further downside as we move towards the end of the heating season.

Metals – Metal inventories rise in China

Data from the Shanghai Futures Exchange (ShFE) shows that weekly inventories for all base metals rose over the last week. Copper weekly stocks jumped by 18,245 tonnes to 68,777 tonnes as of Friday, the highest since 21 July 2023. Among other metals, zinc inventories rose by 5,235 tonnes to 27,882 tonnes (the highest since the week ending on 1 December 2023), while aluminium and nickel stocks increased by 4.6% WoW and 3.3% WoW respectively at the end of last week.

The latest positioning data from the CFTC shows that managed money net longs in COMEX gold decreased by 4,639 lots over the last week to 71,976 lots as of 30 January, the lowest since the week ending 17 October 2023. The next release could show further selling, particularly after Friday's strong US jobs report, which suggests that the Fed may keep rates higher for longer.

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