The Commodities Feed: Middle East tensions build

After weakness across the complex last week, oil prices are trading stronger this morning with rising tension in the Middle East, while a weaker USD will also provide some support

Energy – Specs trim Brent longs

Oil prices fell for a second consecutive week last week. ICE Brent settled about 2.8% lower last week, the biggest weekly decline since early May. Concern over weaker Chinese demand has weighed on the market. However, the market is trading higher in the Asian early morning with rising tension in the Middle East likely providing some support. Following a Houthi drone strike on Tel Aviv, Israel responded over the weekend with an airstrike against the Houthis in Yemen. In addition, out-of-control wildfires in Alberta, Canada, continue to pose a risk to a large amount of oil supply.

The latest positioning data shows that speculators cut their position in ICE Brent by 16,539 lots over the last reporting week to leave them with a net long of 183,890 lots as of last Tuesday. The move was predominantly driven by fresh shorts entering the market, rather than longs liquidating. The gross short increased by 14,523 lots WoW. However, NYMEX WTI saw speculators increase their net long by 10,745 lots over the week to 263,549 lots. Speculators are holding their largest net long in NYMEX WTI since October. There have been signs of tightness in WTI with the prompt spread moving into deeper backwardation over June and July. Looking at refined products, speculators cut their net long in ICE gasoil by 29,736 lots to 53,062 lots. Given the relatively bearish fundamentals for middle distillates, this selling shouldn't be too surprising.

The 650k b/d Dangote oil refinery in Nigeria plans to hit 60% of capacity by September and 550k b/d of output by the end of the year. The ramping up of this large refinery is likely to keep pressure on refinery margins, reducing the West Africa gasoline deficit and increasing middle distillates supply. The refinery is also reportedly asking the government to ban imports of diesel and jet fuel, something the Nigerian Midstream and Downstream Regulatory Agency opposes.

Metals – China's Third Plenum provides little support to metals

Industrial metals closed lower last week as a key policy meeting in China failed to lay out more policies to prop up demand for metals. Copper fell around 5.7% last week, while iron ore was down more than 3.2% WoW.

China's Third Plenum, a twice-decade policy meeting, wrapped up last week and metal markets have been looking for signs that the government will take action to address the country's prolonged property slump, the biggest driver for industrial metals demand. Without further stimulus measures, there is little hope for a near-term recovery for the property and construction sector. The government released a lengthy document over the weekend providing further details. For housing, the government wants to establish a system that promotes renting and purchasing, as well as boosting the construction of affordable housing. In addition, the government will give local governments more power to regulate their property markets.

Agriculture – France soft wheat harvest slows

Recent data from France's Agriculture Ministry shows that just 14% of the soft wheat harvest was completed as of 15 July, compared to 51% in the same period last year. This is the slowest harvest since 2021. Meanwhile, 52% of the soft wheat is rated in good to excellent condition for the period mentioned above, below the 57% seen in the previous week and 80% seen at the same stage last year. Similarly, 81% of the corn crop is rated good to excellent condition, below 83% in the last week and 82% in the same period last year.

The latest data from Ukraine's Agriculture Ministry shows that grain and legume exports so far in the 2024/25 season rose by 57% YoY to 2.3mt as of 19 July. These shipments include wheat exports of 872kt, up 93% YoY, and corn shipments of 1.1mt, up 34% YoY.

The latest CFTC data show that money managers increased their net short position in CBOT soybeans by 13,145 lots to 185,750 lots (most bearish since 6 October 2015) as of 16 July. The move was dominated by rising short positions with the gross short increasing by 12,321 lots to 243,133 lots. Similarly, speculators increased their net short in wheat by 6,749 lots over the last week, leaving them with a net short position of 75,886 lots. Finally, the net speculative short position in CBOT corn fell by 10,587 lots to 343,396 lots over the last reporting week following a 12,292 lot decrease in the gross short position.

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