The Commodities Feed: Middle East uncertainty lingers

Energy prices surged higher yesterday amid ongoing uncertainty in the Middle East. However, in the absence of escalation, oil fundamentals suggest that we should see a pullback in oil prices

Energy – Geopolitical risks linger

Oil markets strengthened yesterday with ICE Brent settling almost 1.7% higher on the day. Lingering tension in the Middle East continues to provide support as the market awaits Israel's response to Iran's recent attack. In addition, a Hezbollah drone strike near the Israeli Prime Minister's private residence will not have helped to ease tensions. On the demand side, banks in China cut their loan prime rates, which would be welcome news for borrowers. While the cut was unsurprising, the reduction was slightly larger than the market expected.

Tensions in the Middle East continue to be reflected in the Brent options market. The volatility skew shows that calls are becoming increasingly more expensive than puts as participants buy protection in the event of a price spike, given the uncertain geopolitical environment. This also ties in with the larger traded volumes we have seen in call options recently.

However, assuming no supply disruptions in the Middle East, the oil balance looks increasingly comfortable through 2025 with OPEC+ set to gradually bring 2.2m b/d of oil supply back onto the market. This should leave the market in surplus, which will not only keep pressure on flat prices through next year but should also mean further weakness in time spreads. Essentially with the market returning to a sizeable surplus, we should at least see the front end of the curve moving into contango.

European natural gas prices also strengthened yesterday with Middle East tensions providing support. Front-month TTF rallied more than 2% to settle above EUR40/MWh. While the market is nervous about potential LNG supply disruptions due to escalation in the region, European fundamentals remain comfortable. Storage continues to tick higher at more than 95% full, above the five-year average of around 92% for this time of year. Although, assuming a normal start to the heating season, it is looking less likely that we hit 100% full storage before the heating season starts.

Metals – Gold hits another all-time high

Gold extended its rally to another fresh record high yesterday, after breaching $2,700/oz last week, amid escalating tensions in the Middle East and ahead of the US election. Investors are seeking safety in gold as Israel has been discussing its attack on Iran after a Hezbollah drone exploded near PM Benjamin Netanyahu's private home at the weekend.

Gold is one of this year's strongest performing commodities, with gains of more than 30% so far, supported by rate cut optimism, strong central bank buying and robust Asian purchases. Safe haven demand amid heightened geopolitical risks as well as uncertainty ahead of the US election in November have also supported gold's record-breaking rally this year.

Agriculture – Mixed weather conditions in West Africa

The weather conditions in the major cocoa-producing regions of West Africa remain uncertain. Rains in Cameroon and Nigeria have led to black pod disease, increasing farmers' costs as they need to spray more chemicals. In contrast, the weather has turned more favourable in the Ivory Coast and Ghana, with rains and sunshine continuing to help pod development.

The USDA's latest crop progress report shows the corn harvest continues to progress well with 65% of the crop harvested, higher than the 55% seen a year ago and above the five-year average of 52%. As for the soybean crop, 81% of the area was harvested, up from 72% at the same stage last year and a five-year average of 67%. Finally, 73% of the winter wheat area has been planted, compared to 74% at the same stage last year and a five-year average of 76%.

The USDA's weekly export inspection data for the week ending 17 October shows that the US exports for corn and soybeans remained strong while wheat shipments slowed over the last week. US weekly inspections for corn stood at 999.8kt in the period mentioned above, up from 506.6kt in the previous week and 472.4kt reported a year ago. Similarly, soybean export inspections stood at 2,433.5kt over the week, up from 1,907.5kt in the previous week but down from 2,628.7kt a year ago. For wheat, US export inspections came in at 268.4kt, compared to 380.1kt last week and 169.5kt for the same period last year.

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