

## The Commodities Feed: Oil market remains nervous

Recent price action in oil suggests that the market remains nervous over the ongoing conflict between Israel and Hamas. The uncertainty has also provided a boost to gold with growing demand for safe-haven assets



Source: Shutterstock

### Energy - Brent back above \$90/bbl

The oil market saw quite a move on Friday. ICE Brent settled 5.69% higher on the day, taking the front-month contract back above US\$90/bbl - to its highest since early October. Uncertainty and concern over the escalation of the Israel-Hamas war continue to support the oil market. In recent days, Iran has warned about the risk of a wider conflict, while there are reports that Saudi Arabia has frozen talks to normalize relations with Israel.

Providing a further boost to the oil market was the US Treasury imposing sanctions on two companies who apparently shipped Russian oil above the US\$60/bbl G-7 price cap while using US-based shipping services. This is the first time we have seen the G-7 price cap enforced, which will raise fears that it will become more difficult to ship Russian oil and tighten the market up further. The US will be careful about enforcing the cap too strongly, particularly given the growing tension

in the Middle East.

Despite recent developments in the oil market, speculators remain reluctant to jump into the market. The latest positioning data shows that speculators reduced their net long in ICE Brent by 65,161 lots over the last reporting week to 153,174 lots as of last Tuesday. This move was largely driven by longs liquidating.

The last week also saw a bit more activity from US oil drillers with the US oil rig count increasing by 4 last week to 501. While only a modest increase, it is still the largest weekly increase since March. Rig count changes in the weeks ahead will need watching because if this continues, it will suggest that US producers could be relaxing the capital discipline we have seen from them in recent years amid the higher price environment.

China released its first batch of September trade data on Friday, which showed that crude oil imports averaged around 11.17MMbbls/d over the month, down 11% MoM, but still up 14% YoY. This leaves cumulative imports over the first nine months of the year at 11.39MMbbls/d, up 14.5% YoY.

As for the calendar this week, the market will obviously continue to follow closely how the Israel-Hamas situation evolves. While for natural gas markets, workers in Australia are set to resume strike action at Chevron's Gorgon and Wheatstone LNG facilities on Thursday if involved parties cannot resolve their differences in final negotiations.

## Metals - Gold breaks higher

Spot gold saw significant strength on Friday. Prices settled more than 3.4% higher on the day, taking the market back above US\$1,900/oz and to their highest since mid-September. A fall in US treasury yields will have provided some support to the gold market, while the ongoing uncertainty in the Middle East will likely have boosted demand for safe-haven assets.

That said, when looking at weekly changes in gold ETF holdings, we do not see strong evidence of investor buying yet. In fact, ETF holdings in gold fell by 397koz last week to 86.7moz. The gold market has now had 20 consecutive weeks of ETF outflows. However, if uncertainty in the Middle East lingers and rates have peaked, we could start to see gold looking increasingly attractive to investors.

## Agriculture – Ukraine's corn and soybean harvest jumps

The latest data from Ukraine's Agriculture Ministry shows that the domestic grain harvest is up 31% YoY to 35.6mt as of Friday. The increase was driven largely by corn, with the harvest increasing to 5.8mt from 1mt over the same period last year. Similarly, the soybean harvest rose to 3.8mt, up from 1mt last year.

Trade data from China Customs released on Friday show that China's soybean imports fell 23.6% MoM and 7.3% YoY to 7.15mt in September, due to weak crush margins, slow presales of soymeal, and poor hog margins. However, cumulative imports are still up 14.4% YoY to 77.8mt over the first nine months of the year.

The latest CFTC data show that money managers reduced their net bearish bets in CBOT corn by 46,742 lots to 112,691 lots as of 10 October. The fall was led by short-covering with the gross short decreasing by 36,609 lots to 286,547 lots. For soybeans, speculators decreased their net bullish

bets by 2,835 lots to just 2,166 lots - the lowest since the week ending 30 May. Meanwhile, CBOT wheat saw speculators add to their net short by selling a further 5,547 lots, leaving them with a net short position of 104,335 lots.

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