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COMMODITIES DAILY

The Commodities Feed: Oil slumps as the US and Iran pause strikes

Oil prices fell sharply in early trading as the US and Iran refrained from further military action, offering the first tangible signs of a potential de-escalation in tensions

Energy – Saudi energy infrastructure targeted

The price action in oil this morning clearly reflects the market's desperation for positive news. After 13 days of strikes, the US has held off on further strikes over the last 2 days, while Iran also paused retaliatory attacks. The recess has seen Brent retreat aggressively, down more than 7% at one stage, briefly below US$90/bbl. While this is the first tangible signal of de-escalation, the reasons behind it are less clear. There's little explanation from the US. Also, it hasn't yet led to any meaningful pickup in vessel flows through the Strait of Hormuz. We're unlikely to see any recovery until there's clarity on whether this de-escalation is more permanent and whether vessels can navigate the strait without fear of attack.

While there are signs of de-escalation between the US and Iran, the Houthis in Yemen stepped up their attacks on Saudi Arabia. The Houthis claimed to have attacked a number of targets in the country, including energy facilities in Jazan and Yanbu. Amid disruptions in the Strait of

Hormuz, Saudi Arabia has been exporting the bulk of its crude oil from Yanbu on the Red Sea.

Disruptions are piling up. Oil loadings at Russia's Sheskharis terminal in Novorossiysk have reportedly been halted since 21 July. Bloomberg notes the facility has shipped roughly 650k b/d this year. This coincides with the suspension of oil loadings at CPC terminal, which had been shipping around 1.7m b/d in recent months. These disruptions come amid a surge in Ukrainian drone attacks on Russian energy infrastructure.

The latest positioning data, which comes with a lag, unsurprisingly shows that speculators continued to add to their net long over the last reporting week. They bought 22,192 lots to leave them with a net long of 192,031 lots as of last Tuesday. This move was exclusively driven by shorts covering, rather than fresh buying entering the market.

Meanwhile, speculators also increased their long positioning in ICE gasoil, amid the growing tightness concerns facing the middle distillate market. Speculators bought 12,665 lots to leave with a net long of 84,540 lots as of last Tuesday. The drop in Russian diesel exports has been a key contributor to the tightness in the middle distillate market. And it appears likely to continue, with the Russian government suggesting that its current ban on diesel exports will end once the market recovers. Originally, the ban was set to end at the end of July. Russia has been dealing with fuel shortages due to ongoing Ukrainian attacks on Russian refinery infrastructure.

Agriculture – Profit-taking on wheat despite supply concerns

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CBOT wheat prices extended losses for a second consecutive session, settling more than 2.6% lower on Friday. Prices retreated from two-year highs as investors took profits ahead of the weekend. This follows a strong rally driven by escalating Russia-Ukraine attacks on the Black Sea port infrastructure and shipping routes. Given that tensions remain heightened, prices are likely to remain relatively well-supported.

Recent data from France's Agriculture Ministry show that 65% of soft wheat is rated in good to excellent condition as of 20 July. This is in line with the previous week, but below the 69% at the same time last year. The soft-wheat harvest is near completion, with 99% of the area harvested. Among other crops, 38% of corn is rated in good to excellent condition, following a heat wave in most growing regions. This compares to 40% in the previous week and 69% for the same period last year.

The latest CFTC data shows that money managers decreased their net short position in CBOT wheat by 17,449 lots for the fourth consecutive week to 19,349 lots as of 21 July. A move driven by supply concerns in the Black Sea. Meanwhile, the net speculative long position in

CBOT soybeans rose by 52,212 lots to 124,900 lots, while the net long in CBOT corn grew by 49,518 lots to 92,909 lots.

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