

The Commodities Feed: Tension builds in the Middle East

Geopolitical risks continue to grow in the Middle East with the US and UK carrying out airstrikes against Houthis in Yemen. Potentially more concerning for oil markets is Iran having seized an oil tanker in the Gulf of Oman



Energy - tensions grow

Tension in the Middle East continues to grow. This week has seen Houthi attacks in the Red Sea intensify, and the US and UK have reportedly responded overnight by carrying out airstrikes against the Houthis in Yemen. Adding to the tension is the fact that Iran has also seized an oil tanker in the Gulf of Oman. This will be a worry for oil markets if we see incidents like this becoming more regular. The Gulf of Oman is very near the Strait of Hormuz, a critical chokepoint for oil flows. More than 20m b/d of oil moves through the Strait of Hormuz, which is equivalent to around 20% of global consumption. So clearly, more significant disruptions to oil flows in this region will be much more alarming for markets. And unlike the Red Sea, where vessels can divert and take a longer route around Southern Africa, there is little other alternative for ships going through the Strait of Hormuz. The Saudis and the UAE have pipelines with a combined capacity of around 6.5m b/d, which avoids the Strait of Hormuz, but the rest of the oil flows would be at risk. For now, we believe the risk of significant disruption to oil flows from the Persian Gulf is low, but it is certainly worth keeping an eye on, given the potential impact it could have on oil supply and prices.

While oil prices were fairly well supported yesterday, the move was fairly modest given these developments. ICE Brent settled just 0.79% higher on the day. Possibly, the higher-than-expected US CPI print could have held oil back as it suggests that maybe we will not see the Fed cutting rates as soon as many in the market expect.

The latest data from Insights Global shows that refined product inventories in the ARA region increased by 224kt over the last week to 5.29mt. The increase was predominantly driven by gasoil stocks, which rose by 176kt to 1.96mt. However, gasoil stocks in the region still remain well below the 5-year average for this time of year. Elsewhere, data from Singapore show that oil product stocks fell by 262k barrels to 42.4m barrels.

The European gas market was fairly rangebound yesterday. The TTF front-month contract traded between EUR30-31/MWh. This is despite the ongoing tension in the Middle East. Colder weather across parts of Europe has seen gas storage drawing at a quicker pace in recent days with storage now a little less than 82% full, still well above the 5-year average of around 70% for this time of year. Our balance still assumes that we finish the current heating season with storage over 50% full, which suggests limited upside to prices.

Henry Hub rallied by a little over 1.9% higher yesterday and the market has continued to strengthen in early trading on Friday. US natural gas storage fell by 140bcf over the last week, which was more than the roughly 122bcf draw the market was expecting, and also significantly more than the 5-year average draw of 89bcf. Total gas storage now stands at 3,336bcf, 11.6% above the 5-year average.

On the energy calendar for today. Other than the usual rig count data for the US from Baker Hughes and the Commitment of Traders report, China will also publish its first batch of trade data for December, which will include oil and gas imports.

Metals - Chile cuts copper output estimates

Chile has cut its 2024 copper output projections for a second straight year mainly due to project delays, Cochilco said. The group estimates Chile's copper output to reach 5.64 million tonnes this year, 6 million tonnes in 2025 and 6.43 million tonnes in 2034. Production in 2023 declined to 5.33 million tonnes. The peak in production is expected in 2029 at 6.88 million tonnes. Chile, the world's biggest supplier of copper, has been struggling with declining ore grade, water restrictions and stricter permitting processes.

The copper concentrate market is expected to tighten this year with political risk continuing to increase for mining operations globally. For example, in Panama, Canada's First Quantum mine has ignited massive protests in the country and was recently forced to shut down. In Peru, protests also threaten to dent the supply outlook for copper. Mining projects in Peru have long been met with opposition from communities across the country, who are concerned about the potential damage to the environment and water resources.

However, despite supply disruptions looming, refined metal is forecast to be in a surplus next year with Chinese production of refined copper hitting new records after the expansion of its smelting and refining capacity. China's refined copper output rose to 999kt in December, up 3.9% from the previous month, as smelters completed maintenance, according to Shanghai Metals Market. The shift is largely driven by China's strategic need for copper, as demand from the green energy sector grows for the red metal. China's annual copper smelting capacity is about 8.8 million

tonnes. Official metals output data from the government is due to be released next week.

Agriculture – IGC raises grain production estimates

In its recent monthly update, the International Grains Council (IGC) increased its 2023/24 global corn output forecast from 1,223mt to 1,230mt, while consumption estimates were increased to 1,218mt from previous estimates of 1,213mt. Meanwhile, global corn-ending stocks are expected to increase to 287mt from 285mt. For wheat, the council left the 2023/24 consumption estimates unchanged at 804mt, whereas production estimates were increased slightly to 788mt from 787mt. Steady consumption amid a marginal increase in supply pushed ending stock estimates up to 266mt from 264mt. Looking at soybeans, the council raised its global ending stock estimates to 66mt from the November projection of 62mt. Soybean production estimates were trimmed to 392mt from 395mt whereas the consumption forecast was also brought down to 384mt from 386mt in November.

The latest fortnightly report from UNICA shows that sugar cane crushing in Centre-South Brazil rose to 4.9mt, up 79.8% year-on-year in the second half of December. The cumulative sugar cane crush for the season increased by 18.8% YoY to 644.1mt. Sugar production rose 35.6% YoY to 236kt in 2H December, with 37.1% of cane allocated to sugar production. Cumulative sugar output so far this season stands at 42.1mt, up 25.4% YoY. Stronger-than-expected output from CS Brazil has led to large shifts in the global sugar balance for 2023/24.

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