The Commodities Feed: Tensions build in the Middle East

Crude oil traded higher this morning on rising geopolitical conflicts in the Middle East. A constructive API report also further helped to lift sentiment in the oil market

Source: Shutterstock

Energy – Oil risk premium rises

Oil prices rebounded sharply in the early trading session today with the ICE Brent front-month contract trading above US$80/bbl as tensions in the Middle East escalated following reports that Hamas chief Ismail Haniyeh has been assassinated in Iran. The details are still emerging from Iran with the market allocating a higher risk premium for oil. Meanwhile, a bullish inventory report by API further supported the oil market.

The API reported overnight that US crude oil inventories fell by 4.5m barrels, compared to the market expectations for a draw of just 0.8m barrels. Crude stockpiles at Cushing decreased by 929k barrels. Meanwhile, the products also saw withdrawals with gasoline and distillate stocks falling by 1.92m barrels and 322k barrels, respectively. The more widely followed EIA inventory report will be released later today.

Recent reports suggest that Nigeria's government has agreed to sell crude oil to the Dangote Petroleum Refinery in Naira, in its effort to relieve pressure on the country's foreign exchange reserves and stabilise domestic fuel prices. The latest decision mandates the sale of 445k bbls/d of crude assigned for domestic use only. The refinery will also receive increased domestic crude supply as the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) mandates the sale of crude to local refineries by major oil producers before considering overseas export options. It is reported that the refinery will have a total capacity of 650k bbls/d once fully operational, which would be enough to meet Nigeria's entire petrol demand.

Metals - Further Chinese support measures

At the recent Politburo meeting in China, officials pledged to roll out more support measures for the economy, focusing more on boosting consumer spending. However, the meeting somewhat downplayed market hopes for more support for the advanced industrial sectors, while the market still needs to see what actual policies the government announces. Meanwhile, signs of a stable manufacturing sector in China further supported the metals complex with prices of all industrial metals trading higher this morning.

In precious metals, gold edged higher for a second consecutive session with prices trading well above $2,400/oz this morning on renewed tensions in the Middle East. Meanwhile, market participants remain optimistic about the upcoming Federal Reserve meeting in which officials could move closer to lowering interest rates.

The latest LME COTR report shows that investors decreased their net bullish position for copper by 5,760 lots to 65,467 lots (the lowest since the week ending 9 February 2024) for the week ending 26 July. This is the third consecutive week of decreases amid a weakening outlook for demand in China. A similar move has been seen in aluminium, with speculators decreasing their net bullish bets by 10,400 lots for four consecutive weeks to 99,494 lots over the last reporting week. This was the lowest level since the week ending on 8 December 2023. For zinc, money managers decreased net bullish bets by 6,686 lots for a third straight week to 20,908 lots as of last Friday.

Agriculture - India sugar production to fall 2% YoY in 2024/25

The first advance estimates from the Indian Sugar Mills Association (ISMA) show that gross sugar production (including sugar diverted for ethanol production) in India could fall to around 33.3mt in 2024/25 compared to around 34mt in 2023/24. The total acreage under sugarcane is expected to be around 5.61m hectares in 2024/25. Sugar allocation for ethanol production won't be disturbed as the nation will have enough sugar supplies in the next season. Meanwhile, sugar consumption is expected to average around 29mt for the period mentioned above, while sugar opening stocks in India at the start of 2024/25 are seen at 9.1mt.

Weekly data from the European Commission shows that the EU's soft-wheat exports for the 2024/25 season stood at 1.9mt as of 28 July, down 38% compared to 3mt reported a year ago. The decline in exports was largely driven by France's crop harvest, which has been impacted by rain and storms. The major destinations for these shipments were Nigeria, Morocco, and Egypt. In contrast, the commission added that the bloc's corn imports stood at 1.74mt, up 31% YoY.

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