The Commodities Feed: Uncertainty lingers

There is still plenty of uncertainty across markets following the attacks in Israel over the weekend. For oil, we would likely need to see confirmation of Iran's involvement in order to give the market another significant push higher

Energy - supply risks linger

The oil market managed to hold onto gains yesterday after opening higher following the terrible events that took place in Israel over the weekend. ICE Brent settled 4.22% higher on the day, taking it back above US$88/bbl. It is still very early days and there are multiple ways in which the situation could play out. For now, oil markets are pricing in a risk premium given the uncertainty. If reports of Iran's involvement turn out to be true, this would provide another boost to prices, as we would expect to see the US enforcing oil sanctions against Iran more strictly/ That would further tighten an already tight market. In addition, it would boost tensions in the region even further.

The issue for the US government is that they are clearly worried about rising energy prices and one would expect that strictly enforcing these sanctions would provide more support to oil prices. This also comes at a time when there is growing noise around the ineffectiveness of the G-7 oil price cap for Russian oil. Russian oil continues to flow despite trading above the US$60/bbl cap. Russia has managed to largely get around the price cap by using its own fleet of vessels and insurance. However, what will be concerning to the US are reports that some of these flows are still being facilitated by Western services. The US Treasury Secretary, Janet Yellen, has said that the US is looking to enforce the cap more aggressively, however, doing so will not be an easy task.

European gas prices jumped yesterday with TTF settling almost 15% higher. The gas market likely rallied on the back of developments in the oil market, but there have also been a number of supply risks that have popped up. These include Australian workers at Chevron's LNG facilities giving notice that they would resume strike action from 19 October, as Chevron and workers have struggled to finalise a labour agreement. The Israeli government has also ordered Chevron to shut the offshore Tamar gas field following the attacks over the weekend. The field produced 10.25bcm of gas last year. Finally, a leak was detected along the Balticconnector, a gas pipeline between Finland and Estonia. This leak is not enough to lead to a big shift in European supply/demand dynamics.

Metals – Zinc surplus to grow next year

The International Lead and Zinc Study Group (ILZSG) forecasts that the global zinc market will witness a surplus of 248kt in 2023 and this is expected to widen to 367kt in 2024. The group expects global mine production to remain almost flat at 12.43mt in 2023 but forecasts it to rise by 3.9% YoY to 12.91mt in 2024. Global refined zinc output is estimated to rise by 3.7% YoY to 13.84mt and 3.3% YoY to 14.3mt in 2023 and 2024, respectively. The growth will be primarily driven by a substantial increase in China, where output is expected to rise by 6.7% YoY and 4.1% YoY in 2023 and 2024 respectively. On the consumption side, global refined zinc demand is expected to rise by 1.1% YoY to 13.6mt this year and by 2.5% YoY to 13.93mt in 2024. In China, zinc usage is expected to rise by 3% YoY in 2023 and 1.2% YoY next year.

For lead, the group anticipates the global market to remain in a supply surplus of 35kt this year and a surplus of 52kt in 2024. Global refined production is expected to rise by 2.7% to 12.84mt, while demand is forecast to rise by 1.1% YoY to 12.8mt this year. For 2024, refined production is expected to grow by 2.3% YoY to 13.14mt while consumption is forecast to rise by 2.2% YoY to 13.08mt.

Codelco said that it would continue to expand its copper production and exploration over the coming years, foreseeing demand to overtake supply with the rising need for the metal in the energy transition. The company said that it would increase its copper production levels to 1.7mt by 2030 and would also double investments in mine exploration.

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