The Commodities Feed: Wait-and-see mode

Oil Markets are in wait-and-see mode following developments in the Middle East over the weekend. Clearly where oil prices go next will largely depend on Israel's response to Iran's attack

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Energy - Oil market awaits Israel's response

Oil prices settled lower yesterday despite the heightened tension in the Middle East following Iran's missile and drone attack on Israel. The market is now awaiting Israel's response. And while Israel's allies are pushing for a diplomatic response, it appears for now that Israel is considering a more direct response. If this is the case, it unfortunately means that this uncertainty and tension will linger for quite some time, as markets will then focus on how Iran further retaliates. The more escalation we see, the more likely we are to see oil supply from the region impacted - something that has been largely avoided up until now. Iranian oil output is most at risk and even a strong diplomatic response from Israel's allies could hit Iranian oil exports significantly with stricter enforcement of oil sanctions. As we previously mentioned, this has the potential to remove anywhere between 500k-1m b/d of oil from the market, which would tighten the oil balance for the remainder of the year. If the market were to lose this amount of supply, it would also mean that OPEC+ members would be less likely to roll over their voluntary additional cuts into the second half of the year.

The EIA's latest drilling productivity report shows that drilled but uncompleted wells (DUCs) increased in March for the first time since February 2023, as producers completed wells at a slower pace than they were drilling. The DUC inventory increased by 9 over March to 4,522. The US industry has relied heavily on DUC inventory in recent years to sustain strong production, and it has fallen from more than 8,900 in 2020. However, with well completions falling (March saw the lowest well completions since February 2022), it suggests that we could see US oil production growth slowing. This is aligned with the EIA's latest Short-Term Energy Outlook, where they forecast US oil production will grow by around 280k b/d YoY in 2024, down from a little more than 1m b/d growth in 2023.

While oil price action has been fairly strange in response to developments in the Middle East, the European gas market has reacted more appropriately. Front-month TTF futures settled more than 1.3% higher yesterday, which took the market above EUR31/MWh to its highest level since January. Uncertainty in the Middle East will be a concern for the European gas market, particularly with the region more reliant on LNG supplies since the Russia-Ukraine war. Yesterday's move is a continuation of the strength we saw in the European gas market last week following Russian attacks on Ukrainian natural gas infrastructure. Providing further support to the market is the unplanned outage of the Nyhamna processing plant in Norway, which has led to Norwegian daily gas flows to Europe falling by around 15% since Friday to below 300mcm/day. However, European storage continues to increase and is now close to 62% full, well above the 56% seen at the same stage last year. These very comfortable storage levels suggest that European prices are due a downward correction in the absence of any significant supply shocks.

Metals - LME aluminium jumps on Russia sanctions

Base metals on the LME rose sharply yesterday. Aluminium surged by a record as the market continued to react to the latest sanctions on Russian metals. Over the weekend, the London Metal Exchange (LME) banned the delivery of new Russian metal, including copper, aluminium and nickel, which followed sanctions imposed by the US and UK. No Russian metal produced from April 13 onwards is eligible for delivery to the LME or the CME.

Aluminium surged as much as 9.4% and nickel rose by 8.8% in the Asian hours, before slumping again.

The new restrictions allow Russian metal to continue to flow into the exchange's warehouses, as long as it was produced before April 13. LME warehouse stocks will now be in focus. There is a possibility of a surge in deliveries of Russian metal that was being held off exchange, which could in turn create further pricing dislocations. Over the past year, large surpluses of Russian metals have already built up in LME warehouses. Russia is now the largest source of LME metals. For aluminium, it accounts for more than 91% of total stocks held in the exchange's warehouses.

Agriculture – US crop plantings improve

The USDA's latest weekly crop progress report shows that US corn plantings were estimated at 6% as of 14 April, one per cent ahead of the five-year average. Similarly, soybean plantings stood at 3%, slightly ahead of the five-year average pace of 1%. Meanwhile, the agency rated around 55% of the winter wheat crop in good-to-excellent condition, compared to around 27% a year ago.

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