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The Commodities Feed: Middle East escalation pushes energy prices higher

Crude oil prices and diesel cracks strengthened as Middle East tensions escalated further, while European gas climbed to the highest since 2023 amid fading expectations for a recovery in Persian Gulf LNG exports

Energy – ICE gasoil crack hits new record highs

Brent pushed back above $95/bbl, reaching its highest level in more than a month, as Persian Gulf tensions escalated further. After weekend strikes, Iran hit two oil tankers in the region yesterday. The US, meanwhile, carried out additional overnight strikes on Iranian targets, adding fresh geopolitical risk premium to the market.

Developments in recent days brought risks to regional oil supplies back into focus. We've seen oil flow through the Strait of Hormuz despite the stalemate between the US and Iran, but rising tensions clearly put crossings at risk. The US energy secretary said 17m barrels of oil flowed through the strait on Monday, the highest volume since the conflict began. When you factor in bypass volumes, it suggests Persian Gulf oil flows are above pre-war levels. But these numbers are uncertain. Ship trackers have been estimating much more modest flows. It makes more sense to look at average flows over longer periods, rather than a single day, given flows move lots day to day.

Escalation in the Middle East also dashes any hope for a recovery in refined product flows, leaving markets tight. This is mostly reflected in the diesel market, where the ICE gasoil crack traded to record highs yesterday of around $79/bbl, while the diesel crack in the US is trading well above $100/bbl. Timespreads reflect this acute tightness, with the ICE gasoil Sep/Nov spread trading at a backwardation of $80/t. Given disruptions to Middle East and Russian diesel exports, and with little sign of an imminent recovery, middle distillate cracks are likely to remain highly elevated and volatile, particularly as we move towards seasonally stronger demand. The global refining system has little slack to make up for the disruptions we are currently seeing.

The latest API numbers show US crude oil inventories fell by 2.6m barrels over the last week. The picture was more mixed for refined products, with gasoline inventories up 300k barrels while distillate stocks fell by 300k barrels. The move in distillate stocks will do little to help ease tightness concerns. The more widely followed EIA inventory report will be released today.

TTF gas prices traded to their highest level since 2023, with front-month futures breaking above EUR75/MWh in early morning trading today. Escalation in the Persian Gulf pushes back hopes of any recovery in LNG exports from the region. This remains a concern for Europe, given lower-than-usual storage levels. LNG netbacks favour sending spot LNG to Europe over Asia. But as we move closer to the Northern Hemisphere winter, competition between the two regions is likely to pick up, particularly if Qatari LNG remains largely absent from the market through year-end.

Metals - Gold slips as oil surge revives rate concerns

Gold prices eased to a two-week low, slipping below $4,300/oz, as escalating tensions in the Middle East push oil prices higher. This prompted markets to reassess the outlook for US interest rates. Rising energy costs could add to inflationary pressures and reduce the scope for near-term Federal Reserve easing, weighing on non-yielding assets such as gold.

The decline follows a strong August rally, with gold gaining nearly 10% and recording its biggest monthly increase since January. Safe-haven demand and growing concerns over US fiscal sustainability have continued to underpin investor interest in gold and other hard assets.

While near-term profit-taking could continue after gold's recent run-up, broader fundamentals remain supportive. Expectations of lower rates over the medium term, central bank purchases and elevated geopolitical uncertainty should provide a floor for prices. Any pullbacks are likely to attract fresh buying interest.

Agriculture – Soybean hit multi-year high on Biofuel policy support and weather risks

CBOT soybean futures climbed to their highest level since December 2023, supported by a stronger-than-expected US renewable fuel exemption decision that improved the biofuel demand outlook. As a key biodiesel feedstock, soybean prices remain highly sensitive to renewable fuel policy developments. The EPA granted 1.76 billion compliance credits for 2025, the largest small-refinery exemption package since 2017 and well above the previously projected 990 million. The agency also committed to fully reallocating exempted volumes from 2025 into 2026 and 2027 blending mandates, effectively preserving biofuel demand. Meanwhile, hot and dry weather across the US Midwest is expected to constrain late-season pod development. This raises concerns about soybean yields. The supportive policy backdrop coincides with increased Chinese soybean purchases, reinforcing expectations that Beijing is advancing its trade commitments with Washington.

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