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COMMODITIES DAILY

The Commodities Feed: Brent breaks above $100/bbl amid US-Iran escalation

Oil prices continued to climb, with Brent breaking above $100/bbl, as prospects for de-escalation between the US and Iran remained elusive, raising concerns over the security of energy flows

Energy - Iraq pushing for higher output quota

ICE Brent pushed through $100/bbl yesterday for the first time since July, and that momentum has carried into early-morning trading today. The move reflects a market still pricing in persistent geopolitical risk, with Persian Gulf tensions showing no credible path to de-escalation. If anything, current signals point to further escalation, keeping upside pressure firmly in place.

Iran said it is ready to intensify the war, while President Trump said that the war is likely to continue until just after the midterm elections in early November. The risk is that escalation starts leading to meaningful disruptions to Strait of Hormuz flows. Oil flows have surprised to the upside in recent weeks, but the market could tighten more sharply if ongoing escalation translates into disrupted oil flows once again.

Adding to the bullish sentiment is China's increased activity in the physical market, particularly in the North Sea, where Dated Brent has seen more strength. China, through much of the war, has helped to rebalance the market through lower crude oil imports. While imports remain well below year-ago levels, they've started to recover from the lows seen in June; recent physical-market activity suggests this could continue. Crucial to the outlook — and to how much momentum this latest move can sustain — is Chinese buying behaviour. It will largely determine whether this rally has follow‑through or fades.

Beyond Persian Gulf disruptions, OPEC+ members risk growing disagreement. Reports suggest Iraq is pushing for a significant increase in its output quota, hoping to use 6m b/d as its baseline for calculating quota levels. This is well above the 4.9m b/d that the IEA estimates as Iraq's sustainable production capacity. Given the difficult period Persian Gulf OPEC+ members have gone through this year, it will likely be difficult to persuade some producers to rein in production through 2027 if needed.

Overnight API data shows US crude oil inventories fell 300k barrels over the last week. Refined products saw gasoline stocks fall by 1.9m barrels, while distillate inventories grew by 2m barrels. The more widely followed EIA inventory report will be released later today. There's likely to be plenty of focus on distillate inventory changes, given the tightness in global diesel markets.

European natural gas prices moved higher yesterday, with TTF briefly breaking above EUR80/MWh and trading at its highest level since early 2023. A widening JKM-TTF spread provided some support. There were also reports that Ukrainian drones hit gas processing plants in Russia's Yamal region. EU gas storage stands at around 67% full, well below the 5-year average of 84%. This leaves the market vulnerable as we head closer towards the upcoming heating season.

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