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The Commodities Feed: Middle East conflict keeps oil well supported

Oil prices remain well supported with plenty of risks still facing Persian Gulf supply. The market, meanwhile, doesn't seem to be buying the Russia-Ukraine energy ceasefire



Energy – Scepticism over Russia-Ukraine ceasefire

The weakness in the oil market following President Trump's announcement of an energy ceasefire between Russia and Ukraine was short-lived. That goes, too, for the US-Russia diesel export deal. ICE Brent settled 1.8% higher, just shy of $107/bbl yesterday — the highest close since mid-September. Clearly, the market is more concerned over recent developments in the Middle East, with Houthi attacks on Saudi Arabia and the lingering risks to oil flows from the Persian Gulf. In addition, there's considerable scepticism over the Russia-Ukraine energy ceasefire, particularly with reports that Russia has hit Ukrainian energy targets since Trump announced it. While diesel initially saw some weakness following the US-Russia deal, strength has returned. The volumes suggested are doing little to offset the tightness in the global middle distillate market.

The Persian Gulf could see further bypass volumes in a relatively short time period. The Saudi Energy Minister said that the country is looking to expand its pipeline export capacity to 10m b/d, up from a current 7m b/d. About 1.2m b/d of this expansion could come from converting a

gas pipeline to crude and could be available to transport oil within 7-8 weeks. Expansion beyond this would take more time, possibly as much as 3 years. Shipping larger volumes from the Red Sea would also require further investment in loading capacity at ports.

Meanwhile, hurricane activity in the Gulf of Mexico continues to disrupt offshore operations for US producers; they've shut in almost 605k b/d of oil production, which is equivalent to nearly 30% of total US production in the Gulf of Mexico, according to the Marine Minerals Administration. However, output has been recovering in recent days, with as much as 1.5m b/d shut-in on Friday.

The European natural gas market continues to see stronger prices. Front-month TTF futures settling above EUR84/MWh and trading to its highest level since December 2022. The market is grappling with the idea that we're about to go through a large part of the Northern hemisphere winter with little Persian Gulf LNG supply. This risks fueling increased competition between Asian and European buyers through the winter, leaving the market vulnerable to spikes higher. In addition, we're seeing mandated buying by some EU member countries in an attempt to hit storage targets. Germany is only adding additional support to European gas prices. EU gas storage is just shy of 75% full, below the 83% seen at the same stage last year and also below the 5-year average of 89%.

Metals - Tight supplies drive copper close to record

LME copper rose for a second consecutive session, trading near record highs. Supply concerns are adding support following a fatal avalanche at Chile's El Teniente mine on Sunday. It led to the suspension of operations in affected areas. While the open pit at the mine remains shut, the rest of the mine's operations are operating normally. The open pit mine accounts for less than 10% of El Teniente's output. Meanwhile, Chinese demand appears well supported, with the Yangshan copper premium remaining near $130/t, close to a four-year-high.

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