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COMMODITIES DAILY

The Commodities Feed: Sustained Middle East flows fail to dent oil prices

Oil prices remain firmly supported, with ICE Brent hovering around $110/bbl as markets stay focused on persistent risks to Middle Eastern supply



Source: iStock

Energy – China continues to draw down crude inventories

Oil prices remain well-supported amid ongoing tensions in the Middle East despite relatively strong Persian Gulf flows. This suggests the market is pricing in a significant risk premium, given the situation's volatility. However, if flows continue uninhibited despite the geopolitical environment, the risk premium would likely erode slowly. Clearly, there are no signs of this yet.

Another major issue in the oil market is logistics. Namely, the record tanker freight rates we are seeing, given the less efficient use of tankers due to developments in the Middle East. The US is considering steps to allow the sale of sanctioned tankers, which would increase tanker capacity in the legitimate market. The idea is to bring freight rates down and reduce the delivered cost of oil to destination. However, uncertainty remains about how much capacity this could add to the legitimate market. The process's duration means it may not offer immediate relief.

China released output data yesterday showing that domestic crude oil production rose 0.6% month-on-month and 2.5% year-on-year to 4.45m b/d in September. Meanwhile, refineries processed a little over 14m b/d of crude over the month, up 0.4% MoM but still down 8.4% YoY. This is the largest amount of crude processed by Chinese refiners since March. Along with previously released trade data, this suggests that China drew down crude oil inventories at a pace of a little more than 500k b/d, or 16m barrels through September. The numbers also suggest that apparent demand fell by 2.7% MoM and 15.2% YoY to 12.75m b/d in September.

Metals — China aluminium supported by strong smelter margins

Data from China's National Bureau of Statistics (NBS) showed primary aluminium production increased 3.1% YoY to 3.9mt in September, supported by high smelter operating rates and healthy profit margins amid global supply disruptions. Cumulative output rose 3.8% YoY to 35mt during January-September 2026, keeping annual production on course to approach the government's capacity cap of around 45mt.

Meanwhile, crude steel production edged up to 73.6mt in September. Demand, however, remained subdued due to the prolonged weakness in China's property sector. As a result, year-to-date crude steel output is still down 2.9% YoY to total 724.8mt in the first nine months of 2026.

Agriculture — India ethanol policy eases sugar supply concerns

Sugar prices fell for a second consecutive session, touching US¢20.5/lb. This followed India's suspension of sugar-based ethanol purchases by state-owned fuel retailers, easing concerns over tight global supplies. The measure, effective from 1 November, follows weather-related reductions in sugarcane output that prompted the government to allow duty-free raw sugar imports. Recent estimates suggest India's gross sugar production could fall from 31mt last season to 28mt in 2026/27, as rainfall deficits in key producing regions weigh on yields.

Despite the recent correction, sugar prices remain more than 30% higher this year because El Niño-related weather risks loom across major producing regions. Investor sentiment also remains supportive, with money managers adding 4,477 lots to net long positions for a third consecutive week, bringing them to 261,841 lots as of last Tuesday, the largest net long since August 2021.

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