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COMMODITIES DAILY

The Commodities Feed: Attacks on Saudi Arabia fan oil supply worries

Oil prices remain well-supported after fresh attacks on Saudi Arabia, with traders focused on risks to the outlook rather than the resilience of Persian Gulf supplies



Source: Shutterstock

Energy - Kuwait pumping more than 2m b/d

Oil prices remain well bid, with ICE Brent back above $110/bbl this morning following additional deadly attacks on Saudi Arabia. Drones struck the Shaybah oilfield and Dammam's international airport. An oil processing plant was the target of the attack. Saudi Arabia's energy ministry said production hasn't been impacted. The escalation prompted the US State Department to order non-emergency US government personnel to leave the country. This will concern markets, suggesting little improvement in Middle East tensions, and possibly further escalation.

Despite the volatile environment, oil flows from the Persian Gulf are holding up. According to the CEO of Kuwait Petroleum Corp, Kuwait is exporting as much crude oil as before the war and producing more than 2m b/d. However, he admitted that the shipping of refined products is more of an issue. While oil flows have remained elevated, President Trump has expressed concern that oil prices remain elevated due to supply risks. This leaves plenty of uncertainty

over the sustainability of flows. The sizeable risk premium currently embedded in prices is unlikely to fade until clear signs of de-escalation emerge and reassure investors that regional supply will remain uninterrupted.

EIA inventory data shows US crude oil inventories fell by 3.06m barrels over the last week**.** There was an additional 300k-barrel fall in Strategic Petroleum Reserves. The data still reflects the impact of hurricane activity in the US Gulf of Mexico, with US oil production estimated to have fallen 410k b/d week-on-week. Crude oil imports fell by 291k b/d, while exports fell by 1.13m b/d. For refined products, implied gasoline demand rose 574k b/d WoW. This contributed to the 2.95m barrel decline in gasoline inventories. However, the diesel market saw some relief, with distillate stocks rising by 1.68m barrels. Total distillate stocks stood at just over 104m barrels, a seasonal low dating back 30 years.

Metals — Indonesia nickel output cuts

LME nickel prices gained significantly yesterday, settling 3.65% higher on coordinated production cuts in Indonesia. Major Chinese nickel producers operating in Indonesia plan to curb production to support weak nickel prices. Under the agreement, refineries would halve production of mixed hydroxide precipitate (MHP), a key battery feedstock. Nickel pig iron (NPI) output for stainless steel production would be reduced by about 20%. A similar proposal failed to reach consensus in August, but persistent price weakness increased pressure on producers to take action.

Emirates Global Aluminium, the Middle East's largest aluminium producer, has restored half capacity at its Al Taweelah smelter in Abu Dhabi after damage sustained amid the Iran war. The company remains on track to fully restore operations by the first quarter next year. However, a complete recovery in sales will also depend on the normalisation of shipping through the Strait of Hormuz.

Agriculture — Wheat extends losses on ceasefire hopes

CBOT wheat prices fell for a fifth consecutive session, settling 2.33% lower yesterday. Prices fell after Trump called for a Ukraine-Russia peace agreement, easing the geopolitical risk premium. After talks with US officials, Volodymyr Zelensky adopted a more conciliatory tone, while Vladimir Putin also met with a US envoy. No tangible progress was announced. A ceasefire could boost grain exports from both countries, improving global supply and weighing on prices.

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