Middle East tensions ease for energy as Russian sanctions hit metals

Commodity prices increased throughout April due to geopolitical tensions for energy and sanction concerns for metals. Oil's future price largely depends on OPEC+ output policy. We expect natural gas and most metal prices to trend lower in the medium term

A worker at the Neft Daslari oil rig in Azerbaijan

The prospects for oil

Given geopolitical developments over the month, energy markets saw increased volatility throughout April. Retaliatory attacks by both Iran and Israel against one another raised fears of an escalation in tensions in the Middle East and the potential impact on oil supplies. However, those tensions appear to have eased even quicker than they escalated, leading to the risk premium in the oil market being fully eroded. A significant amount of spare OPEC capacity would have also helped ease concerns over potential supply disruptions due to any escalation.

The oil market remains tight this quarter. Our balance sheet shows the market to be in deficit by around 1m b/d in the second quarter of the year before returning to a small surplus in the second half of 2024. However, this surplus could disappear quickly if OPEC+ members decide to roll over their additional voluntary cuts of 2.2m b/d. This would be enough to leave the market in deficit for the remainder of 2024, which would prompt us to revise up our current Brent forecast of

US$87/bbl for the second half of the year. The more recent price weakness in oil increases the likelihood of a rollover of cuts in some shape or form, possibly a partial rollover rather than a full one. However, US elections at the end of the year could also possibly influence the choice OPEC+ members make.

We should get clarity on OPEC+ output policy early next month with the next Joint Ministerial Monitoring Committee meeting scheduled for 1 June. While the committee will not decide on output policy, it will likely recommend what members should do.

Supply risks could hit natural gas later in the year

European natural gas prices witnessed renewed strength and volatility through April and early May. A late cold spell across large parts of Europe increased heating demand last month, while Norwegian outages led to reduced flows into Europe. As a result, European storage has been steady for several weeks at around 62% full. In fact, there were several days in April when there were withdrawals from storage. As a result, storage started April at record levels for this time of year but ended the month broadly in line with 2020 levels, which are still very comfortable.

We hold onto our view that gas prices will trend lower through the injection season and expect TTF to average EUR25/MWh over the summer months.

Supply risks are expected to build towards the end of the year when Gazprom’s transit deal with Ukraine expires. Ukraine has made it clear it has no intention of renewing the agreement. This puts roughly 15bcm of annual gas supply at risk, equivalent to around 5% of total EU imports. While prices are likely to react to such a development, we believe it will be manageable for Europe with further LNG supply ramping up over the second half of 2024.

Russian sanctions push base metals higher

Base metal prices have experienced strength and increased volatility over the last month. A key catalyst for the move higher was the LME banning the delivery of new Russian-origin metal into its warehouses following sanctions imposed by the US and UK governments for Russia’s invasion of Ukraine. This move predominantly has implications for aluminium, nickel, and copper.

While the move does not significantly change supply fundamentals, it has led to uncertainty and volatility in the near term, prompting us to revise higher our second-quarter forecasts. However, we believe prices for aluminium and nickel risk a pullback once the market adapts to the new changes and realises the sanctions do not change the overall supply picture.

For nickel, we expect the global primary nickel market to remain in surplus for a third consecutive year in 2024, which should cap prices. For aluminium, higher prices and falling production costs could incentivise European smelters to restart idled capacity later this year, putting downward pressure on prices.

Copper prices have stood out over the last month, with LME copper breaking above $10,000/t for the first time in two years. Concerns over tightness in global mine supply and stronger demand from the green energy sector have boosted prices.

However, short-term indicators suggest that copper prices are due a downward correction. In China, copper inventories are at seasonally elevated levels, while import premiums for refined copper have fallen to zero, reflecting sluggish demand. In addition, while spot treatment charges have weakened significantly, there are no signs yet of Chinese smelters cutting operating rates.

External developments, specifically monetary policy, will also be important for metals' price direction. If US Fed rate cut expectations continue to be pushed back (like we have seen for much of the year), it should provide some further headwinds to metal prices.

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