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The Commodities Feed: Ceasefire optimism weighs on energy markets

Optimism continues to grow after reports that the US and Iran are set to extend a ceasefire, which will include the reopening of the Strait of Hormuz. However, President Trump still needs to sign off on the deal

Energy – Gradual oil supply recovery in event of a deal

The oil market continues to edge lower amid growing optimism that the US and Iran are moving toward a deal. Reports suggest that both sides reached a memorandum of understanding (MoU) that would extend the ceasefire by 60 days and reopen the Strait of Hormuz. Yet this still needs to be signed off on by President Trump. In addition, there has been little colour from the Iranian side regarding the reach of an MoU.

A reopening of the strait would offer some immediate relief to the oil market with tankers leaving the Persian Gulf. However, the recovery is still uncertain. Firstly, shipowners could be reluctant to send vessels into the Persian Gulf initially, with fears that the ceasefire could break down, potentially trapping vessels once again in the Gulf. Secondly, upstream oil production has fallen significantly since the war, with producers shutting in production in order to manage storage constraints.

The recovery in upstream production will be gradual rather than immediate. And a significant

amount of upstream production would need to be brought back, with Persian Gulf crude oil supply (excluding Qatar) in April 2026 down 10m b/d from pre-war levels. Refined product flows will also take time to recover. Refineries in the region need to ramp up output. This will take time, given that some of this infrastructure was targeted in attacks earlier in the conflict.

The market has increasingly priced in a resolution this week. Therefore, any confirmation of a deal that reopens the strait means that significant further downside is likely limited, particularly during the early stages of a ceasefire. The market is more vulnerable now than it was pre-war, given the significant inventory drawdowns we have seen over the last 3 months. A tighter market means that prices are likely to remain volatile. A slow recovery in supply means that the oil market is unlikely to return to surplus anytime soon.

The latest weekly inventory data from the EIA shows that US commercial crude oil inventories fell by 3.3m barrels over the last week. However, when taking into consideration SPR releases, total crude oil stocks fell by 12.39m barrels. Meanwhile, crude oil exports fell by a significant 1.16m b/d week-on-week to 4.44m b/d, as domestic refinery run rates jumped by 2.9 percentage points to 94.5%. This is broadly in line with the seasonal pickup seen as the US enters the stronger summer demand period. Despite increased refinery activity, gasoline and distillate stocks fell by 2.57m and 2.11m barrels, respectively.

In Europe, the latest data from Insights Global shows that refined product inventories in the ARA region fell by 39kt WoW to 3.42mt. Naphtha and jet fuel inventories saw the largest declines, falling 55kt and 27kt, respectively. Jet fuel inventories remain tight, standing at 563kt vs. a 5-year average of 913kt. Despite the tightness in the market, jet fuel cracks have weakened significantly since their peak in early April. There will be some optimism that supplies will normalise with a deal, while pricing dynamics have prompted refiners to adjust yields to increase jet fuel output. The jet regrade would have sent a clear incentive to refiners to make this move.

In the US natural gas market, Henry Hub front-month futures surged more than 8% yesterday to settle at their highest level since early February. EIA data shows that storage increased by 92bcf over the last week. This was lower than the 95bcf increase the market was expecting and below the 5-year average of 97bcf. There’s also the view that gas feed to LNG plants will increase moving ahead; a number of plants have completed planned maintenance. However, total gas storage levels remain very comfortable at 2.48tcf, 6.2% above the 5-year average.

Metals – Gold erases losses on ceasefire hopes

Gold erased earlier losses after reports suggested the US and Iran are working towards extending a temporary truce and resuming negotiations. A softer dollar and lower Treasury yields also offered support.

Still, markets remain cautious over whether diplomatic progress will hold, while concerns over

higher energy prices continue to fuel inflation risks. This could reinforce expectations that interest rates stay higher for longer – a negative for non-yielding assets like gold.

Gold has slumped around 15% since the Iran conflict began in late February.

We expect gold to remain rangebound in the near term as the markets balance improving risk sentiment against macro and geopolitical uncertainty.

The path higher depends on energy prices easing, inflation cooling, and the Federal Reserve cutting rates in the second half of the year. Central bank buying and recovering ETF flows provide additional support. The main downside risk is a breakdown in peace talks that keeps energy prices elevated and the Fed on hold into year-end.

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