

The Commodities Feed: Iranian sanctions threat boosts oil

Oil prices moved higher amid threats of tougher sanctions on Iran in the absence of a nuclear deal



Energy – Iranian sanctions

ICE Brent rallied by almost 2.6% yesterday, reaching its highest since late April. A weaker USD following a cooler-than-expected US consumer price index (CPI) provided some tailwinds to the oil market. However, the key catalyst is the threat of further sanctions on Iranian oil exports. Yesterday, the US Treasury sanctioned a network that facilitates shipments of Iranian crude oil to China. Also, President Trump said tougher sanctions are possible if an Iran nuclear deal isn't struck. Trump has repeatedly threatened to drive Iranian oil exports to zero. While this is unlikely, there's certainly room for a sizable reduction, with Iran currently exporting in the neighbourhood of 1.6m b/d. In 2019, Iranian oil exports averaged around 600k b/d after Trump reimposed sanctions in late 2018.

Lower Iranian oil flows should be welcomed by other OPEC+ members, as it provides room to increase output. For now, all signs suggest that OPEC+ will likely continue with aggressive supply hikes. We'll have to wait until 1 June to see what the group decides for its output policy for July. Already announced supply hikes by OPEC+ should be welcomed by Trump, given his desire to see lower oil prices. However, he may want to be careful on how low prices go, given the impact it will have on the US oil industry, causing a pullback in drilling activity.

Overnight, numbers from the American Petroleum Institute show that US crude oil inventories increased by 4.29m barrels over the last week, very different from the roughly 2m barrel draw the market expected. Meanwhile, crude stocks in Cushing fell by 850k barrels, while gasoline and distillate stocks fell by 1.37m barrels and 3.68m barrels, respectively. The more widely followed Energy Information Administration (EIA) inventory report will be released later today. Other releases include OPEC's monthly market report, which will include their latest market outlook

Agriculture – UNICA reports lower sugarcane crush

The latest fortnightly report from the Brazilian Sugarcane and Bioenergy Industry Association (UNICA) shows that sugar cane crushing in Central-South Brazil stood at 17.7mt over the second half of April, down 49.4% from a year ago. This leaves the cumulative sugar cane crush for the season at 34.3mt, down 33% year on year. The sugar mix so far this season stands at 45.27%, slightly lower than the 46.98% over the same period last season. This is despite sugar continuing to trade at a premium to hydrous ethanol. Cumulative sugar production so far this season stands at 1.58mt, down 38.6% YoY. The lower crush numbers provided a boost to sugar prices yesterday, with No.11 raw sugar settling 2.94% higher on the day.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.