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The Commodities Feed: Lingering Iranian uncertainty supports the oil market

Oil prices are trading firmer this morning with supply risks continuing to hang over the market

Energy – US-Iran tensions support crude

Oil prices continue to hold firm, with ICE Brent trading just below $70/bbl as persistent uncertainty over how talks between the US and Iran evolve. There are also media reports that the US administration has been considering seizing sanctioned tankers carrying Iranian oil. This is obviously something we have seen with Venezuela. However, taking similar action with Iran would be escalatory and would likely see the market needing to price in an even larger risk premium than it already is, given the potential for Iranian retaliation. It is the potential for retaliation, which is reportedly leaving US officials reluctant to take such action for now.

The strength in early morning trading today in the oil market comes despite American Petroleum Institute (API) numbers showing that US crude oil inventories increased by a significant 13.4m barrels over the last week. Gasoline stocks rose by 3.3m barrels, while distillate inventories fell by 2m barrels. If today's Energy Information Administration (EIA) weekly crude oil stock change numbers are similar, it would be the largest build since November 2023. However, clearly geopolitical developments continue to dominate price action.

The EIA released its latest Short-Term Energy Outlook yesterday, which showed the agency expects US crude oil production this year to remain flat at 13.6m b/d. Previously, the EIA was forecasting that output would fall by a little more than 20k b/d YoY. Meanwhile, crude output over 2027 is expected to fall by 280k b/d YoY to 13.32m b/d. Expectations for a decline in US output have been scaled back slightly, with oil prices holding up better than expected so far this year.

In refined products, recent weakness in the European diesel market has led to the East-West arb narrowing, after widening in January. Uncertainty over the EU ban on refined product imports made from Russian oil, which came into effect on 21 January, along with the impact of the recent US winter storm on US diesel flows, had been providing support to the European diesel market. But clearly, these concerns have eased more recently. Gasoil stocks in the ARA region have built through January and early February – rising by a little more than 9% so far this year to 2.14m tonnes – helping to take stocks back towards the 5-year average.

European allowances have come under renewed pressure, with the December contract falling by more than 3% yesterday to take prices below EUR79/t. This weakness comes amid growing noise that the EU may ease emission reductions. An EU official, Peter Liese, said that the linear reduction factor (LRF) for the EU emission cap could be reduced to 3.4% as early as 2029. Currently, the LRF is planned to increase from 4.3% to 4.4% from 2028. There has also been talk in recent days that the EU could allow for a longer phase-out period for free allowances. This is not entirely fresh news for the market, with suggestions back in December for a slower phase-out when the EU agreed to cut emissions by 90% by 2040% from 1990 levels. The EU is set to propose reforms to the Emissions Trading System in the third quarter of this year.

Metals – Copper drops ahead of China holiday

Copper eased on Tuesday, with LME prices drifting toward $13,000/t as liquidity thinned ahead of next week's Lunar New Year holiday. Softer Chinese buying and elevated price levels continue to curb spot demand, while inventories across Asia have been rebuilding into the break.

From a positioning perspective, speculative interest remains firm. The latest COTR data shows that funds increased their net long by 2,760 lots to 38,739 lots in the week to 6 February. In other metals, money managers increased net bullish aluminium positions by 6,822 lots to 97,458 lots. Zinc saw a fourth consecutive weekly rise in speculative longs, up 1,261 lots to 42,676 lots – its highest since late May 2024.

Near-term trading is likely to remain subdued until after the Lunar New Year, with price direction hinging on the pace of post-holiday restocking in China. Broader macro sentiment and expectations for Fed easing will also be key drivers for metals in the weeks ahead.

Agriculture – USDA lowers US corn ending stock estimates

In its latest monthly WASDE report, the USDA decreased its 2025/26 US corn ending stocks estimate sharply to 2,127m bushels, compared to a previous forecast of 2,227m bushels. The reduction was driven by an increase in export estimates for the season. For the global corn market, the USDA lowered its 2025/26 ending stocks estimate by 1.9mt to 289mt.

The USDA left its 2025/26 domestic soybean ending stocks estimates unchanged at 350m bushels. However, for the global soybean balance, 2025/26 soybean ending stock estimates were revised from 124.4mt to 125.5mt. This was largely due to a 2mt higher revision in Brazilian output.

Meanwhile, revisions to the US wheat balance leave it more comfortable. The USDA increased its 2025/26 ending stocks estimate from 926m bushels to 931m bushels, following a drop in domestic use. For the global wheat balance, ending stocks were revised down from 278.3mt to 277.5mt for 2025/26.

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