

The Commodities Feed: Markets whipsaw amid re-escalation in Persian Gulf

After a large selloff on Friday, energy markets are stronger this morning as tensions in the Persian Gulf build once again



Energy- Strait of Hormuz hopes fade

Oil prices are being whipsawed by developments in the Middle East once again, with what appears to be de-escalation quickly turning to re-escalation. Iran's announcement that it would allow commercial vessels to transit the Strait of Hormuz led to an aggressive pullback in oil and gas prices on Friday; ICE Brent fell as much as 13% at one point. The announcement also saw a pickup in vessels transiting the Strait of Hormuz. According to Bloomberg data, 11 tankers crossed the Strait of Hormuz on Saturday, the highest since the beginning of the war.

However, developments over the weekend suggest the thaw has been short-lived, with Brent opening stronger this morning. Iran reimposed its restrictions on the Strait of Hormuz after the US kept its blockade in place. After the US seized an Iranian-flagged vessel, there will be doubts over planned peace talks.

The US is sending negotiators to Pakistan for peace talks today. Iran, however, has said it doesn't plan to take part in talks. This is a concern as the two-week ceasefire nears an end. It opens the door to further escalation in the Persian Gulf and higher oil and gas prices.

Hopes for de-escalation led speculators to reduce their net long in ICE Brent. Speculators sold 50,858 lots over the last reporting week, leaving them with a net long of 373,412 lots as of last Tuesday. The move was primarily driven by longs liquidating, with holders of these positions selling 38,214 lots. The sharp, rapid swings in the market are creating a challenging environment for participants.

Metals – Aluminium volatility persists

LME aluminium prices fell by over 5.5% at one point on Friday after Iran announced it would keep the Strait of Hormuz open during a 10 day ceasefire between Israel and Hezbollah. The move briefly fuelled optimism for de-escalation. The critical route for global aluminium trade had been closed since late February following US and Israeli strikes on Iran. Prices climbed to a four year high last week amid supply disruptions.

However, the Strait was closed again over the weekend, highlighting the fragility of the ceasefire and keeping geopolitical risks firmly in focus. The region accounts for roughly 9% of global aluminium production. It's a key supplier to Europe, leaving the market highly exposed to renewed disruptions. As outlined in [our latest note](#), the shock is no longer just logistical. Aluminium has moved into a structural deficit, with risks skewed to the upside if disruptions persist. Disruptions at Emirates Global Aluminium's Al Taweelah smelter, reduced output at Alba, and earlier curtailments at Qatalum could remove nearly 3 mtpa of capacity, almost half of Middle East production. This would potentially widen the global supply deficit to 2Mt. Given the difficulty of restarting smelting capacity, tight supply conditions are likely to continue supporting aluminium prices despite near term volatility.

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