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The Commodities Feed: Oil prices gyrate amid Iran uncertainty

Oil prices weakened yesterday amid hopes that the US and Iran will find a diplomatic solution to their standoff. However, the build-up of US military assets in the Middle East means the risk of action remains very real

Energy – All eyes on upcoming US-Iran talks

Oil prices weakened yesterday, with ICE Brent settling a little more than 1% lower amid hopes that the US and Iran will reach a diplomatic solution. There were reports yesterday that Iran is ready to strike a deal as soon as possible. This noise comes ahead of another round of planned talks between the US and Iran on Thursday. At the same time, the US continues to build up military assets in the region. So, without a deal, the probability of military action is high and growing. President Trump's 10-to-15-day deadline for Iran works out to a date sometime in very early March. This uncertainty means the market will continue to price in a large risk premium and remain sensitive to any fresh developments.

US inventory numbers from the American Petroleum Institute (API) were bearish, with US crude oil inventories increasing by 11.4m barrels over the week. This is well above the 1.9m barrels the market was expecting. Meanwhile, gasoline and distillate stocks fell by 1.5m barrels and 2.8m barrels, respectively. The more widely followed Energy Information Administration (EIA) report will be released later today. A similar crude oil stock build to the API would be the largest build since February 2024.

Crude oil prices in the Permian Basin have fallen to their largest discount to Houston since November 2024; Midland crude is trading at a roughly US$0.80/bbl discount to Houston. The recent weakness comes amid scheduled maintenance work on the 1.5m b/d Wink to Webster pipeline in early March. It carries crude oil from the Permian Basin to the Gulf Coast.

The next OPEC+ meeting is scheduled for 1 March, and given the broader market strength, the group is likely to resume supply increases from April. This is despite the oil balance sheet suggesting that the market doesn’t need additional supply.

Metals – China returns with renewed copper appetite

Copper prices on the LME have moved back above $13,000/t as Chinese participants return from the Lunar New Year holidays on Tuesday, increasing import appetite. The Yangshan copper premium, an indicator of China's import demand, has risen to $53/t, a two-month high, from around $33/t before the Lunar New Year holiday. This suggests increasing buying interest.

This improvement in demand, however, comes amid elevated inventories. SHFE stocks remain high following seasonal builds, while LME inventories have continued to trend upward. This suggests that, despite the rebound in Chinese demand, the global copper market remains well supplied for now.

LME time spreads remain in a deep contango, reflecting ample nearby availability. While stronger Chinese imports should help absorb some excess material, a sustained tightening in spreads will likely require clearer evidence of inventory draws, both in China and on the LME.

Overall, the market is showing early signs of demand recovery. Yet high inventory levels are likely to cap the pace of any near‑term tightening. The next key indicator will be whether the import arbitrage stays open and leads to sustained LME stock draws, accompanied by a quicker‑than‑seasonal decline in SHFE inventories.

Positioning data from the latest LME COTR shows that funds cut their net long in copper by 3,393 lots to 33,882 lots, the lowest level since October 2023. Money managers also reduced net long positions in aluminium by 4,486 lots to 92,972 lots. Speculative zinc positions fell by 844 lots after five consecutive weeks of gains, leaving the net long at 44,587 lots.

Agriculture– Further pressure on cocoa

US cocoa prices weakened further, with the front-month contract breaking below $3,000/t, the lowest level since April 2023. Improved weather across West Africa has supported supply, contributing to a continued rise in US exchange warehouse inventories, now at 2.13m bags, the highest since September 2025. Meanwhile, Ivory Coast cocoa output this season could fall to 1.6-1.7mt this season, down from 1.85mt in 2024/25, according to the country’s minister of agriculture.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

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