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The Commodities Feed: Oil rises as Middle East tensions reignite

Oil prices are trading higher this morning following strikes on US troops and Saudi energy infrastructure, highlighting the challenges of getting a US and Iran deal back on track

Energy - Persian Gulf tensions resurface

After a heavy sell-off in the oil market over the last three days, prices popped higher in early morning trading, with Brent up more than 4% at the time of writing. Renewed strength comes after the US said it intercepted a surprise attack on US troops. Saudi Arabia intercepted drones from Iranian-backed groups in Iraq, which were targeting Saudi energy infrastructure. US and Saudi forces are carrying out strikes on weapon sites across eastern Iraq. These developments throw cold water on the idea of a swift de-escalation in the Persian Gulf.

Clearly, with Saudi oil infrastructure increasingly targeted, the risk of more prolonged supply disruptions grows. There are reports that the 400k b/d Jazan refinery in Saudi Arabia has shut following Houthi attacks over the weekend. If confirmed, this will only add to tightness concerns in the refined products market already dealing with disruptions from the Persian Gulf, as well as Russia. The tightness, particularly in middle distillates, is well reflected in the ICE gasoil crack. It has now broken above $70/bbl to record levels. The prompt ICE gasoil timespread has surged to a backwardation of above $80/bbl. For middle distillates, there appears to be little relief on the horizon.

Meanwhile, tanker traffic through the Strait of Hormuz remains essentially halted. While Iran and Oman have held talks on managing vessel transits through the strait, Iran has rejected Oman's proposal for a 50-50 shipping plan. It would facilitate an inbound route on one country's side and the outbound route on the other's. Instead, Iran wants oversight of both inbound and outbound vessels.

OPEC+ is expected to announce a supply increase of 188k b/d for September when the group meets on 2 August. This would see the full unwinding of the 1.65m b/d of voluntary cuts announced back in 2023. There are reports that the group will likely pause any further supply increases following the September increase. Obviously, supply increases on paper don't necessarily reflect an actual supply increase, given the ongoing supply disruptions in the Persian Gulf. However, post-disruption, the announced supply increases from the group reinforce the view of a well-supplied market through 2027. The big uncertainty through 2027 will be around the group's policy, with the potential for pushback on output quotas. Particularly given the disruptions that a number of producers have faced this year.

The latest inventory numbers from the API show that US crude oil inventories fell by 3.3m barrels over the last week. Refined products saw some minor relief, with gasoline and distillate stocks increasing by 900k barrels and 400k barrels, respectively. The more widely followed EIA numbers will be released later today.

European natural gas prices have also bounced higher this morning, following the renewed tensions in the Middle East. The European gas market is looking increasingly vulnerable as we head into the winter. QatarEnergy has reportedly extended its force majeure for buyers in Asia and Europe to as far as the end of September. There have also been reports of QatarEnergy looking to subcharter an LNG carrier until the end of October, given the ongoing disruptions to Qatari LNG exports. EU LNG imports are on track to fall a little more than 25% YoY in July, which is making the job of refilling storage more difficult. EU gas storage is 56% full at the moment, below the 10-year seasonal average of 72%. Heatwaves across Europe will only add to the difficulty in filling up storage ahead of the winter. Tighter-than-usual storage at the start of the heating season suggests that gas prices will remain elevated through the winter, with the risk of spikes higher.

Metals – Gold under pressure ahead of Fed decision

Gold prices came under renewed pressure with the market taking a cautious stance ahead of today's Federal Reserve policy meeting. The market is expecting the Fed to keep rates on hold on Wednesday. It's pricing in a more than 30% chance of a 25bp hike. Meanwhile, higher oil prices amid a re-escalation in the Middle East will weigh on gold in early morning trading, reigniting inflation concerns.

The latest COTR report shows that the speculative net long position in LME copper increased by 12,668 lots to 60,771 lots in the week ending 24 July. The move was driven by increased participation from both long and short positions. Tight supply conditions and low inventories lifted broader market sentiment. Positioning changes in other base metals were more modest, with money managers increasing their net long in LME aluminium by just 96 lots to 59,264 lots, while the net long in zinc increased by 4,107 lots to 39,736 lots.

Agriculture – Declining inventories drive Arabica coffee higher

Arabica coffee extended its rally yesterday, settling more than 4.5% higher. The strength comes amid declining exchange inventories and heightened near-term supply concerns. ICE-monitored coffee stocks at US port warehouses fell by 18.5k bags on 27 July, marking a 25th consecutive daily decline to 292.8k bags, the lowest level since February 2024. While global coffee production is expected to reach a record high in the 2026/27 season, supported by a strong Brazilian arabica crop, supply arrivals have been slower than anticipated. Heavy rainfall in Brazil's Minas Gerais region disrupted harvest activities. Despite expectations of a production surplus later in the season, tightening nearby supply has pushed the prompt Arabica timespread into pronounced backwardation, with the Sep/Dec spread surging above USc22/lb.

Author

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

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

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