

The Commodities Feed: Sanctions risk eases following Trump-Putin summit

Oil opened lower this morning amid reduced concerns over tougher sanctions against Russia following the Trump-Putin summit



Energy

It's unsurprising to see oil trading lower this morning following the Trump-Putin summit in Alaska. While talks failed to secure a ceasefire, the tone and the absence of "severe consequences" for the lack of a truce, reduce, or at least delay, the risks of stricter sanctions. In fact, following the meeting, President Trump said he would hold off on secondary tariffs against China for its purchases of Russian oil, citing progress made over the weekend with Putin.

However, the next focus for the market will be talks today between Trump and President Zelensky, along with a number of European leaders. Ultimately, Russia still wants Ukraine to cede territory, something Ukraine will be very hesitant to do, particularly without very strong security guarantees from the US and Europe.

Furthermore, there's been little progress regarding the secondary tariffs that the US imposed on India for its buying of Russian oil. These tariffs are set to come into effect on 27 August, so there is still time for India to try to negotiate ways to avoid them.

Ultimately, the reduced risk of tougher sanctions and secondary tariffs should allow bearish oil fundamentals to become the dominant driver for oil prices moving forward.

Positioning data shows that speculators continued to sell oil over the last reporting week. The managed money net long in ICE Brent fell by 34,430 lots over the week to 206,547 lots as of last Tuesday. This was predominantly driven by fresh shorts entering the market. Meanwhile, NYMEX WTI also saw aggressive speculative selling, with the managed money net long declining by 29,562 lots to 49,264 lots. This is the smallest position that speculators have held in WTI since April 2009. Clearly, speculators are already focusing on the bearish outlook for the market.

Baker Hughes data shows that US producers increased the rig count for a second consecutive week, increasing by 1 to 412. While it's a very marginal increase, it does at least suggest that drilling activity may be stabilising, after the rig count fell aggressively from March through to early August. But given the expectation that oil prices still have room to move lower, we may still see another leg lower in US drilling activity.

European natural gas prices came under further pressure over the last week ahead of the Trump-Putin summit, with the Title Transfer Facility (TTF) falling by more than 3%. This also left TTF settling at its lowest level since July 2024. Investment funds probably wanted to reduce risk heading into the weekend, given the uncertainty over how the talks could have unfolded. The weakness in TTF has seen the Japan Korea Marker (JKM) premium to European gas widening. This should see LNG cargoes diverted to Asia. However, with EU gas storage almost 74% full and still lagging both last year's levels and the 5-year average, Europe will need to continue to see strong LNG inflows in order to get close to the 90% storage target.

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