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The Commodities Feed: Sanction concerns boost diesel prices

The oil market continues to digest the potential impact of US sanctions on Russian oil producers. Meanwhile, the risk of sanctions continues to provide a boost to middle distillates

Energy – Steady crude, stronger middle distillates

The initial positive sentiment around US-China trade talks faded as the oil market progressed through yesterday's trading session, with ICE Brent settling almost 0.5% lower. Meanwhile, the market continues to digest the impact of US sanctions on Russian oil flows on Rosneft and Lukoil. And for now, a comfortable supply outlook continues to support the market.

However, one part of the oil market that continues to see strength is middle distillates. The ICE gasoil crack rallied above US$31/bbl, after trading around US$23/bbl mid-month. Meanwhile, the ICE gasoil Nov/Dec timespread surged to almost $20/t backwardation yesterday, though it’s given back some of those gains in early morning trading today.

The latest sanctions on Russia threaten diesel flows, as Russia exports around 1m b/d of diesel. So clearly, a significant amount of supply is at risk. Furthermore, there is also the risk that Indian refiners reduce run rates if they stop buying Russian oil. This would lead to lower middle distillate export volumes from India. In addition, the Ukrainian president has said that Ukraine will increase the scale of attacks on Russian refineries, posing further supply risks to the middle distillate market. There have been concerns about tightness in the middle distillate market for several months now, and the potential impact of these sanctions will do little to ease them.

Metals – Gold drops below $4,000/oz

Gold fell more than 3% yesterday to below $4,000/oz, as its correction from last week continued amid progress in US-China trade negotiations that reduced safe-haven demand. Just last Monday, gold hit a record high above $4,380/oz. A trade deal between the two countries could reduce some of the geopolitical tensions that have driven gold to multiple record highs this year. The slump in prices coincides with further outflows from gold-backed ETFs; last Friday saw the biggest outflow since May 2025.

Even after today's correction, gold is still up more than 50% this year, underpinned by strong ETF demand and central bank buying amid diversification. And central bank buying is likely to continue as the structural factors behind this year's rally remain in place. The recent price pullback could even be seen by some central banks as a chance to increase their holdings.

Meanwhile, copper is edging closer to a record high of $11,104.50/t it reached in May 2024. A US-China deal would remove one of the key downside risks to copper's outlook. With supply disruptions stacking up and trade optimism growing, the outlook for copper is starting to look brighter. Expectations of another Federal Reserve interest rate cut this week, following a softer-than-expected US inflation report last Friday, have also given industrial metals a further boost.

Author

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

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com