The Commodities Feed: Iranian nuclear deal in sight

Your daily roundup of commodity news and ING views

Energy

The oil market came under further pressure yesterday, with ICE Brent settling more than 2.3% lower on the day, leaving it to trade just above US$65/bbl. There are growing expectations that a lifting of US sanctions against Iran is imminent. And this is weighing on the market. The Iranian President has said that a "main agreement" has been made, which would see the US returning to the Iranian nuclear deal, and the lifting of sanctions. However, a final deal has not been agreed just yet, with a number of final issues still needing to be discussed. Talks will resume next week, and given the recent progress, there is the potential for an official announcement on an agreement next week. While any announcement confirming the lifting of sanctions would likely hit sentiment further, we believe that this will be short-lived, given that the supply and demand balance remains supportive. A number of refiners, particularly those in India, are keen to resume purchases of Iranian crude oil once sanctions are lifted, with the expectation that favourable supply terms will be offered.

The latest trade data from India shows that refiners imported 18.3mt (4.46MMbbls/d) of crude oil in April, up 10.3% YoY, and also higher than the 4.32MMbbls/d imported in March. These stronger imports come despite the fact that fuel demand in the country has been under pressure due to the latest wave of Covid-19. Given that refiners have reduced run rates as a result of weaker fuel demand, domestic crude oil inventories will likely be edging higher, which suggests that we could possibly see some weaker crude oil imports in the months ahead.

Turning to refined products, and the latest data from Insights Global shows that refined product inventories in the ARA region declined by 173kt over the last week, to leave stocks at 5.63mt, the lowest level since April last year. Gasoline inventories saw the largest decline over the week, falling by 73kt, and likely reflects stronger flows to the US East Coast following the Colonial pipeline outage.

Finally, next week should be quiet in terms of data releases for energy markets. However, all attention will be on a possible announcement regarding the Iranian nuclear deal.

Metals

It was a mixed picture for the metals complex yesterday after broader markets stabilized from Wednesday's selloff. A weaker dollar offered some support, but sentiment remains cautious as investors weigh inflation risks.

The latest data from the National Bureau of Statistics (NBS) shows that refined copper production in China rose 16.6% YoY and 3.6% MoM to 901kt in April. Among other base metals, lead output grew by 9% YoY to 546kt, whilst zinc production increased 3.4% YoY to 544kt last month. Turning to trade data, China's copper scrap imports in April almost doubled from a year ago to stand at 167.7kt. It's also the second-highest monthly import of scrap recorded for nearly two years. Copper scrap imports are expected to remain elevated over the coming months, given the recent pledge by domestic smelters to reduce their dependency on imported copper concentrate to curb the nation's carbon emissions, and instead plan to use more secondary supply.

Finally, the International Aluminium Institute (IAI) released production numbers yesterday, which showed that daily global primary aluminium output remained unchanged from a month earlier and averaged 185.3kt in April. However, monthly output rose 5.3% YoY to total 5.6mt last month. This was down from the 5.74mt produced in March. While China's monthly aluminium output declined 3.2% MoM to 3.2mt in April, cumulative production over the first four months of the year was still up 7% YoY to total 12.9mt.

Agriculture

India has lowered the sugar export subsidy it was offering to mills from INR 6,000/t (c.US$82.2/t) to INR 4,000/t (US$54.8/t) effective immediately. Higher sugar prices on the international market mean that the amount of government support needed has diminished. The lower export subsidy is unlikely to make much difference to the current export target of around 6mt for the current marketing year of which 5.6mt of sales have already been contracted.

Author

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

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