The Commodities Feed: Potential restart of Iranian nuclear talks

Your daily roundup of commodity news and ING views

Energy

ICE Brent continues to edge higher, settling just short of US$86/bbl yesterday. Brent continues to be dragged higher by WTI, where there is growing concern over the decline in oil inventories at the WTI delivery hub, Cushing. These concerns saw WTI briefly trade above US$85/bbl yesterday.

However, the oil market was unable to hold onto all of its gains yesterday, following reports that Iran will meet with the European Union with the hopes of reviving the Iranian nuclear deal. The hope would be that these talks lead to broader discussions between nations regarding the nuclear deal, with the eventual aim of getting all nations to rejoin the deal, which would ultimately lead to the lifting of US sanctions against Iran. There is plenty of uncertainty around the timing and how talks will evolve. The market will likely take a more cautious approach in terms of pricing in the potential for a deal, given how talks broke down over the summer. We are forecasting in our balance sheet that Iranian oil output will end 2022 around 1.3MMbbls/d higher than where it starts the year, but clearly this assumes a lifting of sanctions.

The prospect of Iranian nuclear talks resuming will likely reinforce the view of OPEC+ to take a cautious approach in easing supply cuts.. According to Reuters, the Russian Deputy Prime Minister expects that OPEC+ will stick to its plan to increase output by 400Mbbls/d in November. This is despite the growing pressure that we have seen from the US, India and Japan for the group to increase output more aggressively.

Metals

The metals market regained buoyancy amid low inventories and rising inflation expectations amid the energy crisis. And these factors outweighed demand concerns. Given the headwinds facing China's economy and metals demand, the People's Bank of China doubled its liquidity injection on Monday through its short-term funding tools to support local government debt sales, with the net injection being the highest since January. The official state-run Xinhua news agency also stated that sufficient policy tools are available to stimulate growth if required and that the policy reforms will help the country achieve quality development in the longer term.

US 5 year inflation expectations have continued to surge, reaching 2.64% yesterday – the highest since 2014. This has propelled the inflation trade and pushed up copper prices. There is little relief to the waning copper inventories in LME sheds. As a result, the LME nearby spreads rebounded, with the cash/3M spread reaching $242/t. While the red metal continues to pour out of LME sheds, Chinese smelters are unable to deliver a meaningful amount of metal into exchange sheds amid the power crunch.

Higher inflation expectations have also benefited gold as real yields sank again, while nominal US yields remained contained. The yellow metal managed to settle above US$1,800/oz yesterday after many failed attempts.

As for aluminium, reports suggest that Guizhou province in China has asked some aluminium smelters to shut down temporarily due to power shortages. For nickel, SMM reported that the nickel pig iron market in China continues to be very tight due to power rationing and some supply concerns from Indonesia and the Philippines. Seasonally, nickel supply from the Philippines drops over the first quarter of the year due to the rainy season. The market appears to be preparing for lower supplies with higher purchases over the current quarter. The tight supply of NPI has been supportive for refined nickel demand in the market as well. LME 3M nickel gained more than 3% day-on-day, touching an intraday high of US$20,465/t. The market probably also liked the news that Hertz confirmed it would buy 100,000 Tesla electric vehicles.

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