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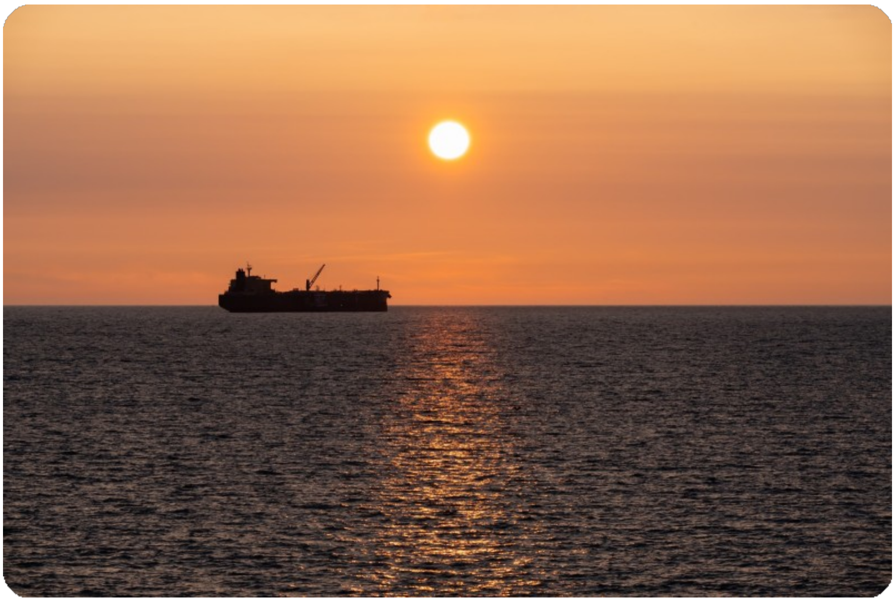
COMMODITIES DAILY

The Commodities Feed: Oil prices up even as Hormuz flows increase

Oil prices edged higher as prospects for renewed US-Iran talks diminished. Meanwhile, oil shipments through the Strait of Hormuz appear to be gradually increasing



Energy – Venezuela considering OPEC exit

Oil prices ended higher for the first time this week yesterday, with ICE Brent settling up 2.1%. The renewed strength comes after reports that President Trump told mediators the US has no intention of returning to the terms of the June Memorandum of Understanding. Instead, he indicated, the US is happy to see whether growing economic pressure on Iran yields better results. Optimism grew through the week amid efforts to restart talks. Clearly, this optimism has started to wane.

Despite diplomatic efforts hitting a roadblock, there are growing signs of additional oil flowing through the Strait of Hormuz. We've been assuming oil flows through this key chokepoint have averaged 5m b/d. However, some suggest volumes could be as high as 6-8m b/d. More Persian Gulf oil producers seem to be shuttling their crude through the strait, while producers in the region are increasingly selling their crude outside the Strait of Hormuz. As the conflict persists, producers are adapting to the new realities and becoming increasingly comfortable navigating the strait. However, we're clearly still far from normalisation.

OPEC faces the risk of another member exiting the group after the UAE's departure earlier this year. Venezuela is considering leaving the group as relations with the US improve following the ousting of Nicolas Maduro at the start of the year. Venezuela entertaining the idea should not be too surprising, given that the US has taken control of Venezuelan oil sales. Reports suggest it may also take a stake in Venezuelan oil fields. While an exit would reduce OPEC's influence over the oil market, the group still holds a large market share, particularly when you factor in OPEC+.

European gas prices also jumped yesterday as hopes of a resumption in US/Iran talks faded. TTF settled 3.8% higher on the day. This strength continued in early morning trading today. European gas storage remains tight, and the region will struggle to hit the lower storage target of 75% ahead of the heating season. However, LNG netbacks suggest LNG flows into Europe should pick up again as the region tries to bolster storage ahead of winter.

Metals - Zinc rally eases but tight mine supply supports market

Zinc prices eased from recent four-year highs, but market fundamentals remain supportive. The key signal remains the strength in nearby spreads. Zinc for immediate delivery traded almost $200/t above the three-month contract on Wednesday. It's the widest premium since December, and remained above $190/t on Thursday.

Physical supply remains constrained. LME inventories are low, and treatment charges remain deeply negative, highlighting tight concentrate supply and pressure on smelter margins.

Some signs point to improving supply. Nyrstar has completed a 71-day maintenance programme at its 315ktpa Budel zinc smelter in the Netherlands. The plant has ramped production back up since July. Broader challenges facing the smelting sector, including tight concentrate availability and weak processing economics, suggest supply constraints are unlikely to ease significantly in the near term.

Unless mine output recovers meaningfully, constrained smelter economics could continue to limit refined zinc production and keep the market tight.

Agriculture – Wheat hits three-year high as Black Sea supply risks intensify

CBOT wheat prices extended their rally for the fourth consecutive session yesterday, as fears of an escalating Russia–Ukraine conflict raised concerns over grain exports from a critical global supply region. The war has damaged ports and grain facilities, disrupting shipments. Together, Russia and Ukraine account for more than a quarter of global wheat supplies, along with substantial supplies of corn, sunflower, and barley.

The market was further supported by reports that Russia is preparing broader strikes on

Ukrainian infrastructure after concluding that peace talks have stalled. Ukraine's agriculture Ministry estimates that this season's agricultural exports could reach only about half of earlier projections. Russia's wheat shipments are expected to decline by more than 50% year-on-year in August, tightening global supplies. Further disruptions to Black Sea export routes could tighten supplies and sustain the upward momentum in wheat prices. These disruptions come amid existing supply concerns in global agri markets due to a strengthening El Niño this year.

The European Commission's latest Sugar Market Observatory projects EU sugar production to decline by 19% year-on-year to 13.4mt in the 2026/27 season. This decline is driven by weaker yield expectations, forecast to fall 11.5% YoY to 72.2t/ha. Lower sugar prices have led to lower plantings, with the area estimated to be down around 8% YoY.

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