FIS

Sulphur: From By-Product to Strategic Commodity

Sulphur is a physical commodity unlike most others.

Its production process is unusual: around 90% of global sulphur supply is recovered as a by-product of the desulphurisation of sour gas and crude oil, rather than being produced specifically for its own sake.[1] As a result, sulphur supply is closely linked to refinery and gas-processing capacity, meaning production cannot simply be increased in response to higher prices.

China is the world's largest sulphur producer, with an estimated 19.0 Mt produced in 2025, more than double US production of 8.1 Mt.[2] Global production across all forms is estimated at around 84 Mt. Of this, approximately 35 Mt is estimated to be traded on the seaborne physical market each year, primarily on Handy-size and Supramax vessels, with some of the key export routes originating in the Middle East.[3]

Sulphur is predominantly used to produce sulphuric acid, which is then used extensively in fertiliser production, particularly within the phosphate chain. More recently, demand has also increased from nickel High Pressure Acid Leaching (HPAL), with sulphur demand from the sector estimated at around 16 Mt/y in 2025, compared with approximately 3.5 Mt/y in 2021.[4]

A market increasingly exposed to supply shocks

Global sulphur production has increased moderately over the past 14 years, rising from approximately 69 Mt in 2011 to around 84 Mt in 2025 – an increase of roughly 20%.

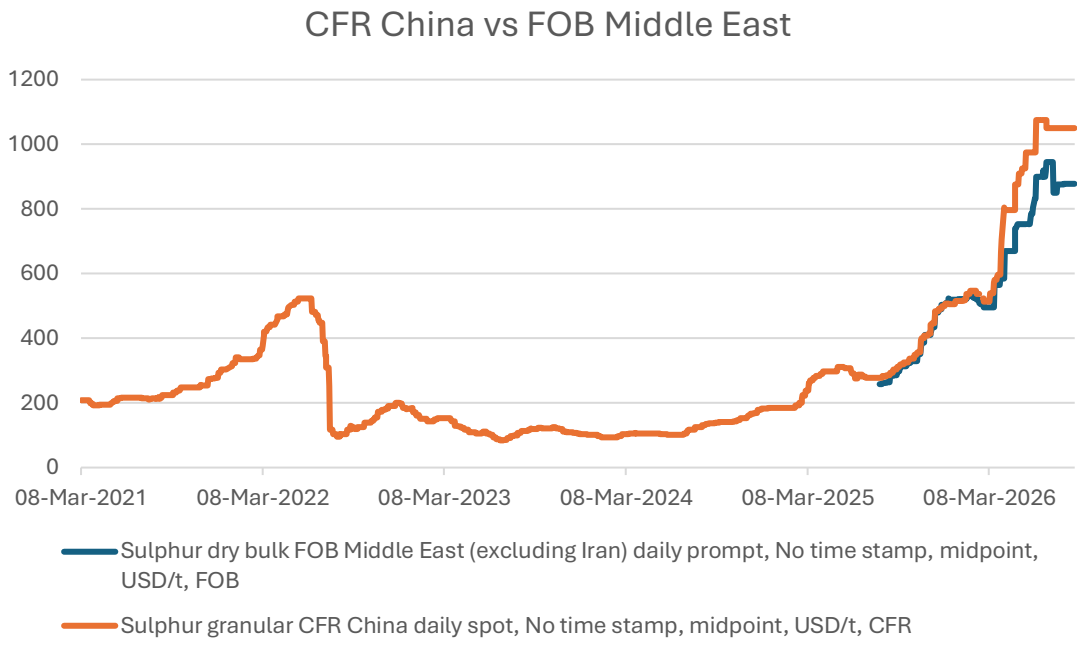
However, the market has experienced significant swings between oversupply and tightness. In 2010, for example, millions of tonnes of sulphur accumulated in unsold stockpiles in Kazakhstan. By contrast, the market entered 2025 and 2026 in a period of extreme tightness.

This shift has also been reflected in prices. Sulphur prices rose sharply during 2026, increasing from an average of around $500/t FOB before the US-Iran conflict to approximately $1,100–1,200/t FOB by the end of June.[5]

The sulphur market has been particularly exposed to the disruption because a significant proportion of global seaborne trade moves through the Strait of Hormuz. Around 45% of seaborne sulphur trade is estimated to transit the strait.[6]

Unlike many commodities, however, sulphur supply cannot respond quickly to such a price shock. Because most sulphur is recovered as a by-product of oil and gas

processing, producers have limited ability to increase output simply because prices have risen. This creates the potential for significant price volatility when physical supply is disrupted.



Source: Argus Media Group

A physical market under pressure

The physical market is currently experiencing a period of supply deficit.

According to CRU estimates, the US-Iran conflict has reduced exports from the region by more than 1 Mt per month since March 2026, while more than 0.5 Mt has been blocked in the Strait of Hormuz. The resulting shortage has forced consumers across the phosphate and industrial sectors in China, Morocco, the US, Brazil, Indonesia and South Africa to adjust demand by reducing consumption.

The immediate outlook therefore remains challenging. However, the medium-term picture is more balanced.

Before the US-Iran conflict, the market had been expecting additional sulphur supply from new Middle Eastern sour-gas projects and increased Asian refining capacity. CRU previously projected that Middle Eastern exports could increase from 19.1 Mt in 2024 to represent a substantially larger share of global trade by 2029. UAE exports alone were projected to increase from approximately 7.0 Mt/y to 11.4 Mt/y over the same period.

If these projects come online as expected, additional supply could eventually ease some of the structural tightness currently affecting the market.

The emergence of a sulphur derivatives market

The physical market is not the only part of the sulphur story that is changing.

The market has recently seen its first swap transaction based on the daily Argus CFR China Sulphur assessment, with an August contract trading at $1,050/t on 21 August 2026.

The transaction marked FIS's entry into the sulphur derivatives market, expanding the firm's commodity derivatives offering into a market increasingly influenced by developments across energy, fertilisers, metals and global trade flows.

For a commodity whose supply is largely determined by the production of other commodities, these cross-market relationships are becoming increasingly important. As sulphur becomes more exposed to geopolitical disruptions, changing refinery and gas-processing capacity, and growing demand from fertilisers and nickel processing, the development of a derivatives market provides participants with new tools to manage price risk and gain exposure to an increasingly strategic commodity.

If you would like to know more about the current FIS product offering, please email enquiry@freightinvestor.com

Sources

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