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COMMODITIES, FOOD & AGRI ENERGY

Peace deal hopes and tariff risks drive commodities

Energy prices have fallen over the last month amid hopes of a Russia-Ukraine peace deal. But sanction risks abound, while US tariffs rattle metal markets



Oil falls despite lingering sanction risk

Oil prices came under pressure in February as trade war uncertainty overshadowed sanctions-related supply risks. For now, the oil market is heading toward a surplus this year, justifying the weakness in prices. Things could change rapidly if we see big shifts in the enforcement of sanctions against Iran and Russia. Current price levels also increase the potential for OPEC+ to delay the unwinding of supply cuts. The group is set to gradually reverse these cuts from April. But there's growing speculation that OPEC+ may delay action, despite US President Trump calling for increased output.

The strength in natural gas prices is supporting oil demand through the Northern Hemisphere winter. Global oil demand growth estimates for 2025 have been edging higher. The International Energy Agency (IEA) expects global demand to grow by 1.1m b/d this year, compared to a previous estimate of just under 1m b/d issued in November.

Trade war uncertainty poses downside risks to oil prices, along with the potential for weaker

demand. In early February, an escalation in trade tensions boosted oil prices, particularly WTI. The threat of US tariffs on Canadian and Mexican oil briefly pushed WTI prices higher, boosting Brent, too. This was before the US came to a last-minute deal with its two largest crude suppliers. Yet risks abound that these tariffs will return.

European gas storage plummets

European gas prices had a volatile month with TTF trading shy of EUR60/MWh at one point. This was the highest level since February 2023. While prices have come off since then, they remain at elevated levels.

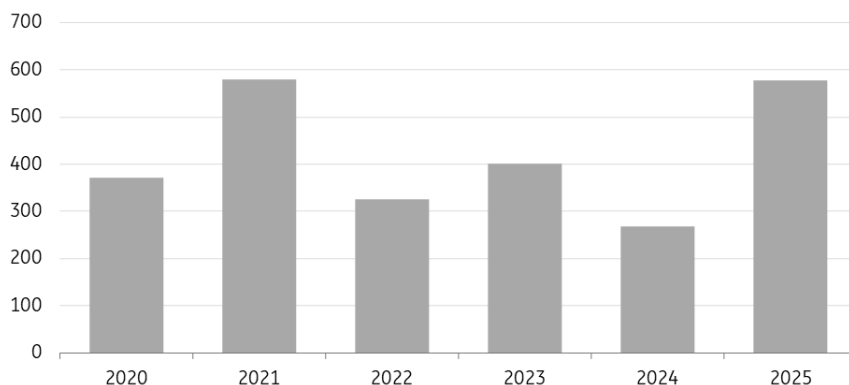
The strength reflects EU gas storage rates falling at an accelerated pace in February. A combination of supply disruptions, stronger domestic demand and reverse flows to Ukraine tightened the market faster than expected. EU gas storage is now around 40% full, not far from where we expected storage to end the 2024/25 heating season. Stronger draws mean storage is likely to finish this winter at less than 35% full. The rate of withdrawals from European storage during the first 24 days of February was the fastest for any February since 2021.

This leaves Europe with an even bigger task of refilling storage ahead of the 2025/26 winter, a job complicated by the shape of the forward curve. There are suggestions that the European Commission might ease storage targets. This seems likely only from next year. It means the pressure is still on to hit the 90% storage target by 1 November 2025. However, German utilities are pushing for storage targets to be eased to 80% ahead of next winter.

Lower storage levels and the job of refilling storage means European gas prices are likely to remain well-supported through the year. We have increased our annual average forecast to EUR45/MWh.

The downside risk to this view is the Commission moving to ease storage targets for next winter. A peace deal that includes Europe agreeing to increase import volumes of pipeline Russian gas could be an even bigger downside risk.

Daily average EU natural gas storage draw for February (mcm)



Source: GIE, ING Research

Note: The daily average covers the first 24 days of February

Metals caught up in trade tensions

Industrial metals had a volatile start to 2025 thanks to Trump's tariff policies. In early February, the US president imposed [25% tariffs on all US imports of steel and aluminium](#), effective March 12.

The impact will be greater for aluminium than steel because the US imports significant volumes of aluminium. Tariffs would boost aluminium prices, representing a significant upside risk to the US Midwest premium forwards. By contrast, the effects on LME prices will be minimal.

The US imports roughly half of its aluminium. Canada is the biggest supplier, accounting for 58% of imports, followed by 6% from the United Arab Emirates. Imported steel accounts for roughly a quarter of US consumption needs, with Canada the top supplier at 25%, followed by Brazil and the EU at 17% apiece and Mexico at 14%.

Trump claims the duties will increase domestic production and bring jobs back to the US. However, previous tariffs didn't increase domestic production of either metal. In 2024, the US steel industry's output was 1% lower than in 2017 before Trump's first round of tariffs. The aluminium industry produced almost 10% less.

Copper imports are also at risk as Trump orders an investigation on national security grounds. This paves the way for tariffs down the road. As a result, Comex copper futures have surged.

Tariffs are bearish for industrial metals as global growth slows. Yet the prospect of a prolonged trade war raises expectations that Beijing may unveil more aggressive stimulus measures, limiting the downside for metal prices.

Concerns that tariffs might intensify inflation risks as economic growth slows are boosting demand for safe-haven assets like gold. Gold prices are already up more than 12% year-to-date, establishing a series of consecutive record highs along the way. With tariff concerns likely to linger, gold will continue to benefit from heightened uncertainty.

Meanwhile, central banks will continue to buy gold as geopolitical tensions and a difficult economic environment increase demand for safe-haven assets. The People's Bank of China (PBoC) increased gold reserves for a third consecutive month.

Trump's return is triggering something of a gold rush in the US, too. Though Trump hasn't specifically targeted gold with levies, traders worry the precious metal could be hit by any potential blanket tariffs. This US demand surge could provide a further boost for gold prices. We believe gold will hit more record highs this year, with \$3,000/z now in sight.

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