

The Commodities Feed: Downside risks persist

Risk of further escalation in trade tensions between the US and China poses increased downside risks to the commodities complex



President Trump's announced 30% tariffs on the EU and Mexico starting on 1 August

Energy -Tariff tensions build

Oil prices witnessed something of a relief rally this morning. Yet risks are still skewed to the downside as President Trump threatens an additional 50% tariff on Chinese goods if it doesn't lift its 34% retaliatory tariff today. It's unlikely that China will reverse the policy. As such, we're likely to see further escalation, which will only exacerbate growth concerns and worries over oil demand.

[As we mentioned following the move by OPEC+ to increase supply](#), we expect a strengthening in the Brent-Dubai spread, something we've seen in recent days. A combination of stronger OPEC+ supply and tariff impacts (with a number of Asian countries receiving higher-than-feared reciprocal tariffs), should cause the spread to strengthen further.

The broader move lower we've seen in crude oil since 2 April suggests the market is pricing in bigger odds of a recession. The scale of the sell-off will worry OPEC+, which last week surprised the market with a larger-than-expected supply hike for May. If downward pressure continues, the OPEC+ move could be very short-lived. We could see OPEC+ pause or even reverse supply increases. The Saudis need around US\$90/bbl to balance their budget. While their supply increase

last week suggests they're not aiming for this level, the Saudis probably don't want to see an even wider gap between their fiscal breakeven level and current prices.

Slowing in US drilling activity could offer some soft support for the market. We expect current WTI prices to lead to a pullback in drilling. This will eventually feed through to slower supply growth and potentially even a decline in US oil output. High decline rates for US shale mean consistent drilling is needed to keep US output stable. According to the latest Dallas Federal Reserve Energy survey, producers need an average of \$65/bbl to profitably drill a new well.

European natural gas prices haven't escaped the broader risk-off move. Title Transfer Facility (TTF) is down almost 13% so far this month, trading at its lowest level since September. While investment funds reduced their net long in TTF by a sizeable amount between February and March, there's still room for further fund liquidation. Yet while funds have been exiting the market, fundamentals are still supportive. The EU, for example, faces the tough task of hitting its 90% storage target ahead of next winter. Clearly, tariffs provide some downside risk not just to European gas demand, but also to Asian LNG demand. This risk is fairly difficult to quantify at the moment.

Metals – Gold slides below \$3,000/oz

Gold fell further on Monday, with prices sliding below \$3,000/oz. Gold is traditionally a safe haven, but sometimes investors sell it along with other asset classes to cover losses elsewhere. We think gold's selloff will be short-lived as trade and tariff uncertainty continue to bolster its safe-haven appeal.

China's central bank added gold to its reserves for a fifth straight month in March, despite record-high prices. Gold reached a new record high above \$3,100/oz last month, ending the first quarter 19% higher. Gold held by the People's Bank of China rose by 0.09 million troy ounces last month. We believe central banks will continue to buy gold as geopolitical tensions and economic uncertainty push them to increase allocations toward safe-haven assets. This should provide a further tailwind to gold prices looking ahead.

Agriculture – USDA reports steady start for corn plantings

The USDA's first crop progress report for the season shows US corn plantings started at the usual pace of around 2% for the week ending 6 April. This was in line with the five-year average of 2%. In contrast, winter wheat crop conditions deteriorated due to less rain in the major producing regions. The agency rated around 48% of the winter wheat crop in good-to-excellent condition, compared to around 56% a year ago.

Weather conditions in the major cocoa-producing countries in West Africa remain uncertain during the growing season. Recent reports suggest that the weather has become favourable in some regions -- including Ivory Coast, Ghana, and Cameroon -- with a combination of rains and adequate sunshine. This could help to boost crop growth. In contrast, prolonged dryness in Nigeria delayed the mid-crop harvest until mid-July, with flowering expected in the next 10 days amid moderate weather.

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