The Commodities Feed: Peace deal hopes fade, while tariff fears linger

Hopes for a Russia-Ukraine peace deal took a big step backwards after President Trump clashed with President Zelenskyy, while tariff concerns move to centre stage

Energy- Peace deal hopes fade

Uncertainty abounds following last week's showdown between the US and Ukraine. It's unclear where the US now stands, making a peace deal seem more distant than a week ago. This is altering energy-market hopes for an easing of sanctions. The shift in expecations is reflected in early morning price action for oil, with Brent up more than 1% at the time of writing.

On top of the uncertainty about a Russia-Ukraine peace deal, markets are bracing for US tariffs on Canada, China and Mexico to be imposed on 4 March. China faces an additional 10% tariff, following a similar amount imposed last month. Meanwhile, potential tariffs on Canada and Mexico will have great market impact, as these two countries are the largest suppliers of crude oil to the US. In 2024, 62% of US crude imports came from Canada, while 7% originated from Mexico. Tariffs would likely hurt Canadian producers. They have little flexibility to send oil to other countries, given that the bulk of pipeline infrastructure is directed towards the US. Canadian oil producers will likely have to accept larger discounts relative to WTI for their crude oil if tariffs go ahead. Mexico, by contrast, has more flexibility; US tariffs on Mexico will likely see crude redirected to other markets.

Also in focus this week is China's Two Sessions. In particular, the Government Work Report, which will unveil China's 2025 growth target. It's likely to be kept at "around 5%," while Beijing details priorities for fiscal and monetary policy amid growing trade tensions.

The latest positioning data shows speculators continue to reduce exposure to the oil market as global uncertainty intensifies. Speculators reduced net longs in ICE Brent by 44,677 lots over the last reporting week, leaving them with a net long 220,546 lots. The bulk of this move was driven by longs liquidating positions. A similar move was seen in NYMEX WTI. Speculators sold 35,752 lots, leaving them with a net long of 67,578 lots. Speculators have significantly reduced their net long in WTI in recent weeks, holding their smallest net long in WTI since 2010.

Agriculture – Indian sugar output falls

In India, the latest data from the Indian Sugar & Bio-Energy Manufacturers Association (ISMA) shows that 2024/25 cumulative sugar production fell 14% year on year to 22mt -- after diversion to ethanol -- as of 28 February. This compares to 25.6mt during the same period last year. By the end of February, 355 mills were crushing cane compared to 466 mills at the same time last year. Lower output from India and some downgrades to the Thai crop have speculators shifting from holding a net short to a net long in No.11 raw sugar. They bought 62,268 lots over the last reporting week, leaving them with a net long of 51,328 lots. Looking ahead, the market will be focused on the 2025/26 CS Brazil crop, which will officially get underway at the start of April.

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