The Commodities Feed: Retaliatory tariffs vs Iranian sanction risk

It was a session of two halves for oil yesterday with prices initially weaker on the back of China's retaliatory tariffs against the US. However, a tougher US stance on Iran saw the market claw back these losses later in the session

Energy – China retaliatory tariffs

There were two key factors influencing oil prices yesterday, firstly downward pressure came from China announcing retaliatory tariffs against the US, which included targeting US energy flows. However, countering this later in the session was President Trump signing a directive to increase economic pressure on Iran by enforcing sanctions more strictly and so putting a large share of Iranian oil exports at risk.

On China's retaliatory tariffs, US crude oil and LNG were included, with a 10% and 15% tariff, respectively. However, with these tariffs only coming into force on 10 February, there is still room for a deal, although there are reports that President Trump is in no rush to talk to President Xi. The tariffs on oil and LNG affect a relatively small share of Chinese imports. In 2024, of the 11.11m b/d of crude oil imported, only 1.7% came from the US. For LNG, of the 105bcm imported last year, 5.6% came from the US. Therefore, while not great for broader sentiment, it is something that oil and gas markets will be able to cope with fairly easily.

On the more bullish side for crude and as reflected in the price action during the latter part of yesterday's trading session, was President Trump's directive to increase economic pressure on Iran. This move shouldn't come as too much of a surprise given that President Trump was hawkish towards Iran during his first term and reimposed oil sanctions against Iran back then. These sanctions were never lifted by Biden, but they were not enforced strictly, particularly after Russia invaded Ukraine. Therefore, stricter enforcement could see as much as 1m b/d of supply at risk. However, reduced flows from Iran will not help in lowering oil prices, something that President Trump is very keen to achieve. He would need to see OPEC increase oil output (something he has already called for) to offset any potential Iranian losses. However, convincing the Saudis and other members to increase output may prove difficult at current price levels.

Overnight, API numbers showed that US crude oil inventories increased by 5m barrels over the last week, above the roughly 2m barrels build the market was expecting. In addition, gasoline inventories increased by 5.4m barrels, while distillate stocks fell by 7m barrels. The more widely followed EIA inventory report will be released later today.

Moving to European gas, TTF prices settled 3.25% lower yesterday following China's retaliatory tariffs on US LNG. The market remains relatively nervous over storage levels and the bigger job Europe will face to refill storage over the injection season. However, one would expect the market to face some resistance around current levels (in the absence of any supply shocks). Gas is deep in the coal switching range, even when considering the recent strength in EUA prices. Furthermore, the investment fund long in TTF seems fairly stretched and so the appetite for speculators to increase this significantly more (in the absence of a bullish catalyst) is likely limited.

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