The Commodities Feed: Risk-off move

Commodity markets were unable to escape the sell-off that was seen in equities, while the threat of tariffs will not be helping sentiment

Energy – Unable to escape risk-off move

Oil prices came under pressure yesterday with the market and the broader complex unable to escape the sell-off seen in equity markets. Tariff headlines will also not be helping sentiment with reports that President Trump will place tariffs on steel, aluminium and copper imports. In addition, the Financial Times reports that Treasury Secretary Scott Bessent is pushing for a universal import tariff of 2.5%, which will be raised gradually.

Despite the recent weakness in the oil market, the Middle East market continues to show relative strength with its unusual premium to Brent widening to more than US$2/bbl. While the Middle Eastern market has been strengthening since late last year, it is since US sanctions against Russia that we have seen a much more meaningful move, with buyers of Russian oil looking for alternatives. Although oddly, despite sanctions on a large part of the Russian shadow fleet, tanker rates have been weakening more recently.

European natural gas prices also saw plenty of weakness yesterday with TTF settling 3.7% lower on the day, taking prices back below EUR48/MWh. Talk of potential transit flows through Ukraine (of Azeri gas) will likely be adding pressure. In addition, storage draws have slowed which is likely offering some comfort to the market. EU gas storage is a little under 56% full at the moment, down from 72% at the same stage last year and below the five-year average of 63%.

Metals – Tariffs are coming

Industrial metals traded under pressure at the start of the new week, with copper dropping from a two-month high, amid concerns over China's economic growth following weak factory activity and profit data, despite Beijing's recent efforts to boost the economy. We have seen plenty of support measures from Beijing over the past few months, but, so far, they have failed to have a meaningful impact on industrial metals demand. China's official manufacturing PMI index fell to 49.1, the lowest since August, while the non-manufacturing gauge for construction and services dropped to 50.2. An uncertain path for China's economic recovery remains one of the key downside risks to our industrial metals outlook for 2025.

Tariff threats are unlikely to help sentiment with reports that President Trump is set to impose tariffs on steel, aluminium and copper imports. There is very little detail on exactly what will be covered. According to the US Geological Survey (USGS), the US has a net import reliance of 13%, 44% and 46% for iron & steel, aluminium and copper, respectively.

In precious metals, gold also declined yesterday as the global rout in technology stocks, sparked by the Chinese AI startup DeepSeek's breakout success, prompted traders to cover margins. Still, gold is up more than 4% so far this year and we believe trade frictions and geopolitical concerns will push it to another record high this year.

Agriculture – Improved weather for cocoa crops

Recent rains across West Africa have increased hopes for improving cocoa plant growth, following the dry and hot Harmattan winds. There are suggestions that weather has turned favourable for major cocoa-producing regions with proper rain, which could help the plants produce new flowers.

Weekly export inspection data from the USDA for the week ending 23 January shows that US wheat shipments rose, while corn and soybean exports slowed over the last week. US weekly inspections of corn for export stood at 1,247kt, down from 1,542.3kt in the previous week but up from the 926.3kt reported a year ago. Similarly, export inspections for soybeans stood at 729.4kt over the week, lower than 979.3kt in the previous week and 913.5kt reported a year ago. Meanwhile, US wheat export inspections rose to 484.5kt, compared to 261.8kt a week ago and 283.8kt a year ago.

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