The Commodities Feed: Tariff-induced sell-off

The complex has sold off heavily following the announcement of reciprocal tariffs by the Trump administration. Oil, metals and ags have all sold off. Even gold, usually seen as a safe haven, has come under pressure

Even gold – traditionally a safe haven – has tumbled from the record high it reached earlier last week

Energy – Oil pricing in big demand hit

Oil prices have had their worst week since October 2023, with risk assets getting hit by US President Donald Trump's reciprocal tariffs and the retaliation we have started to see towards them. China retaliated on Friday with a 34% tariff on all imports from the US. ICE Brent settled almost 11% lower last week to trade down to the mid-$60s. This weakness has only continued in early morning trading today. Adding salt to the wound has been the surprise decision from OPEC+ to increase supply in May by more than expected. The Saudis also decided to cut their official selling price for their Arab Light grade into Asia for May loading by US$2.30/bbl – the biggest cut since 2022.

The scale of tariffs, combined with the decision from OPEC+, clearly took speculators by surprise. This is reflected in the ferocity of the sell-off in oil and the fact that speculators increased their net long ahead of the tariff announcement on 2 April. The latest positioning data shows that speculators increased their net long in ICE Brent by 56,112 lots to 318,182 lots as of last Tuesday. This move was driven by fresh longs entering the market. Clearly, they have since exited the market.

The scale of the sell-off suggests the market is pricing in a significant demand hit as recession fears grow. Current price levels imply a demand hit in the region of 1m b/d for the remainder of this year, which would leave oil demand flat year-on-year.

The move in the market is also likely to lead to a severe slowdown in drilling activity in the US. While Baker Hughes data shows that the oil rig count increased by five over the last week, this will quickly reverse at current price levels. The latest Dallas Fed Energy Survey shows that US producers need, on average, $65/bbl to profitably drill a new well, compared to a spot WTI price of a little over $60/bbl, while forward prices are sub-$60/bbl. A reversal in drilling in the US would mean it doesn't take long to start seeing US oil production declining. Permian crude oil production from existing wells declines by a little more than 400k b/d per year.

Metals – Markets collapse on global growth fears

Metal markets collapsed on Friday as Trump's escalating trade war continues to fuel concerns about global growth and the demand outlook for raw materials. China's retaliation on Friday with its own 34% tariffs on all imports from the US intensified the sell-off. Copper prices tumbled more than 6% on the LME, the biggest drop in five years, while prices on COMEX dropped more than 8%. Nickel prices plunged 6%, to the lowest level since 2020. A global trade war is bearish for industrial metals in the context of slowing global growth. China is the biggest consumer of industrial metals, so a trade war with the US is of particular interest for metals markets.

Even gold – traditionally a safe haven – tumbled from a record high it had reached earlier last week as investors sold off the precious metal along with other asset classes to cover losses elsewhere. Still, we believe this should be short-lived, with escalating trade actions likely to continue to bolster safe-haven buying.

Agriculture – Soybeans fall as China responds to US tariffs

CBOT soybean prices came under pressure on Friday after China retaliated against US tariffs by imposing a 34% tariff on all US imports starting from 10 April. This follows previous retaliation from China, which targeted US farm products. The latest export sales data from the USDA shows that over the 2024/25 marketing season, the US has exported 21.5mt of soybeans to China, while there are still 598kt to be shipped, which could be cancelled. This latest tariff move will only further push China to purchase larger volumes of Brazilian soybeans.

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