The Commodities Feed: Tariff uncertainty intensifies

Commodities and risk assets in general are under pressure as trade policy uncertainty intensifies

Energy- Venezuelan oil supply at risk

The oil market came under pressure again yesterday, with ICE Brent settling a little more than 0.8% lower. WTI is trading lower in early morning trading today. The prospect of rising OPEC+ supply, combined with intensifying uncertainty over tariffs, hit oil market sentiment. Overnight, there were suggestions that the Trump administration is considering some tariff relief on imports from Canada and Mexico. But heightened uncertainty is sending investors to the sidelines. This is evidenced by a reduction in speculative positioning in both WTI and Brent in recent weeks.

On the sanction front, the US administration has given Chevron until 3 April to wind down operations in Venezuela. Despite sanctions, Chevron previously had a license to operate in the country and export crude oil to the US. As production stops, 200k b/d of supply is at risk. This will leave US refiners looking for alternative heavy grades of crude oil just as other suppliers — Canada and Mexico — face tariffs.

Numbers overnight from the American Petroleum Institute show US crude oil inventories fell by

1.5m barrels over the last week. On the product side, gasoline stocks declined by 1.2m barrels and distillate inventories increased by 1.1m barrels. It was a fairly neutral release. Even so, the market is more focused on tariffs at the moment.

The European natural gas market sold off yesterday with TTF settling nearly 3.9% lower on the day. We believe that the weakness is overdone given the tighter storage environment. Also, European prices need to stay elevated and at a premium to Asia to ensure the region brings in enough LNG through the injection season. Previously, the TTF forward curve was at a consistent premium to Japan Korea Marker (JKM) prices for much of the year. This isn't the case amid weakness in European prices.

Agriculture – China targets US agriculture in retaliation

As widely expected, China announced further retaliatory tariffs on imports from the US. This follows the US raising tariffs on China from 10% to 20%. China is targeting US agricultural products with tariffs ranging between 10-15% on certain commodities. This includes an additional 15% tariff on wheat, corn, cotton and chicken, and an another 10% tax on soybeans, sorghum, pork, beef, aquatic products, fruits, vegetables and dairy products.

Soybean levies will only push China further towards South American supply. Seasonally, this is a time when China relies more heavily on Brazilian supply. Export sales data from the USDA shows that only around 1.5m tonnes of soybeans are still set to be shipped versus the nearly almost 21m tonnes sold to China this marketing year. Thanks to the latest tariffs, a large share of these outstanding sales could be cancelled. Meanwhile, USDA data shows no outstanding US corn or wheat sales to China.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com