

The Commodities Feed: Tariffs rattle markets

Oil prices have rallied on the back of US tariffs imposed on imports from Canada, Mexico and China, while metal and agri commodities have come under pressure



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Energy – Tariffs on Canadian energy imports

US tariffs on imports from Canada, Mexico and China are set to come into effect on 4 February and failing to come to a deal would mean tariffs of 25% on Canadian and Mexican goods and 10% on imports from China. For Canadian energy, the Trump administration decided to impose a tariff of only 10%. However, this has still seen NYMEX RBOB and ULSD trading stronger in early morning trading today, which also dragged WTI higher. Canada is a key supplier of crude oil to the US, with the US importing around 4m b/d from Canada (61% of total imports). This crude oil is a heavier crude, which many US refineries are configured to run on, particularly in the Mid-West. Given the importance of Canadian oil to the US, it is not surprising to see that WTI is trading stronger this morning. In theory, tariffs mean higher feedstock prices for US refiners (which will ultimately be passed onto consumers). However, the full cost of the tariff is unlikely to be picked up by US refiners/consumers. In 2023, 97% of Canadian oil exports went to the US and given that Canada has very few alternatives for where to export its crude oil, we are likely to see West Canada Select prices fall, which will see its differential to WTI widen. If Canada had a more sizeable export infrastructure allowing it to export to other external markets, Canadian oil producers would feel

less pain from these tariffs. There is 890k b/d of pipeline capacity (Trans Mountain pipeline) from Alberta to the West Coast of Canada, allowing Canadian crude to be exported to other markets, and we are likely to see more of this pipeline capacity used once tariffs are imposed. However, supply from Alberta still far exceeds the capacity of this pipeline, so we will continue to see the bulk of Canadian crude going to the US. Ultimately, given that Canadian producers have fewer alternatives than US refiners, means Canadian oil producers are likely to feel relatively more pain from these tariffs.

More broadly, an escalation in trade tensions is not supportive for risk assets with it souring sentiment and raising concerns over the impact it could have on global growth, which means the strength in crude oil prices may be short-lived. The strength in the USD will also likely provide some headwinds not just for oil but the broader commodities complex.

The latest Commitment of Traders report showed that speculators increased their net long in ICE Brent by 44,839 lots over the last reporting week to 307,704 lots as of last Tuesday. The move was predominantly driven by fresh longs entering the market. It also leaves speculators with the largest net long since April. However, for NYMEX WTI, speculators sold 59,095 lots over the reporting week to leave them with a net long of 191,792 lots.

Metals – Trade & metals

US President Donald Trump carried out his threat over the weekend and imposed tariffs of 25% on Canada and Mexico and 10% on China, starting on Tuesday. Canada and Mexico already vowed to retaliate against US tariffs with their own measures, while China has pledged “corresponding countermeasures” to Trump’s levies on Chinese exports. Tariff threats have kept metals markets on edge since Trump’s win in the presidential election in November.

Tariffs on metals are likely to hit Canada the hardest. Canada accounts for over half of US aluminium imports by value. The country is also the second biggest, behind Chile, source of copper, and it’s the biggest supplier of steel to the US, followed by Brazil and Mexico. The US President said that copper tariffs will take a little bit longer to implement than those of aluminium and steel.

Tariffs are a major headwind to metals. Inflationary in nature, tariffs could limit interest rate cuts from the US Federal Reserve. At the same time, higher rates along with higher tariffs and greater geopolitical uncertainty will push up the dollar, providing headwinds to industrial metals demand. Tariffs are also likely to result in higher domestic prices in the US. For aluminium, tariffs will result in higher prices in the US, representing a significant upside risk to the US Midwest premium this year.

Back in 2018 Trump imposed a 10% duty on imported aluminium and a 25% tariff on imported steel to promote domestic metal production. The tariffs on Canada and Mexico were lifted a year later after a new free-trade agreement was negotiated between the two countries and the US.

Agriculture – Indian sugar production to fall

The latest estimates from the Indian Sugar and Bio-energy Manufacturers Association (ISMA) show that gross sugar (excluding sugar diverted for ethanol production) in India could fall to around 27.3mt in 2024/25 compared to around 32mt in 2023/24. The decrease in production estimates is largely driven by a decline in cane yields in top-growing regions due to widespread red-hot

infestation. Sugar diversion towards ethanol is estimated to rise to 3.8mt for the year, compared with 2.2mt last year. 2024/25 ending stock estimates fell to 6.3mt, compared to 8mt a year ago. Sugar consumption is expected to average around 28mt whilst the country will likely export 1mt of sugar this season. Meanwhile, sugar production fell to 16.5mt through January in the 2024/25 season, lower than the 18.7mt produced during the same period last year. The group further said 500 mills were crushing cane by the end of January compared to 520 mills at the same time the previous year. Proper rains last year have improved the planting for the 2025/26 season, which may allow millers to start crushing earlier than usual.

Recent data from Ukraine's Agriculture Ministry shows that the season's grain exports have risen 10% year-on-year to 25.5mt as of 31 January. The increase was driven largely by wheat, with exports rising by 19% YoY to 10.7mt. In contrast, corn exports stood at 12.3mt, down 1.5% from a similar period a year ago.

Lastly, the latest CFTC data shows that money managers increased their net short position in CBOT wheat by 18,990 lots to 110,782 lots (the most bearish position since 28 November 2023) as of 28 January. The move was dominated by rising short positions. Meanwhile, the net speculative long position in CBOT corn rose by 39,043 lots to 350,721 lots, the largest net long since 3 May 2022. Similarly, the net speculative long position in CBOT soybean rose by 16,166 lots to 56,496 lots.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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