US tariffs and China's economic strategy: what it means for commodities

Pubblicato il 11 novembre 2024

Nitesh Shah
Head of Commodities and Macroeconomic Research, WisdomTree Europe

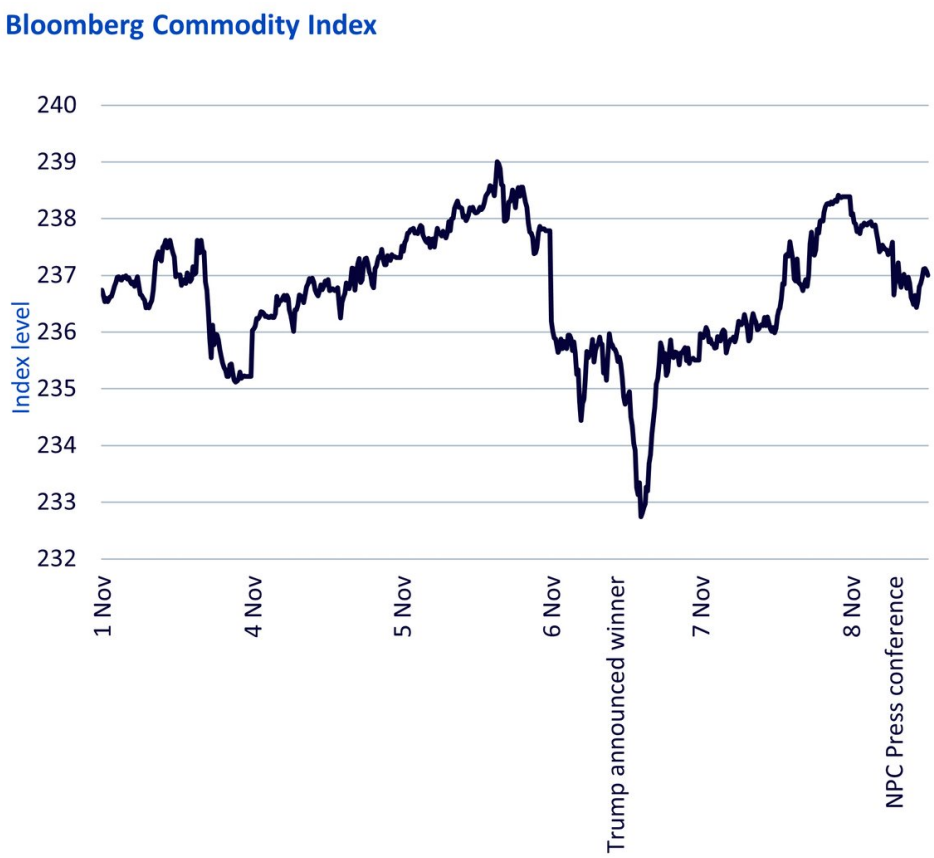
Punti chiave

- Higher tariffs, more oil production and a stronger Dollar are on the cards following Trump’s US Presidential election win.
- There was great anticipation of a bazooka sized stimulus from China’s National Party Congress meeting. Unfortunately, markets were disappointed with how narrow the stimulus announcement actually was.
- We believe that China has kept dry powder aside for further stimulus that it can deploy once it knows the extent of tariff headwinds.
- Although commodities fell on the announcements, it has bounced quickly as well. The dips could open up nice entry points for metals in particular.

The headlines from last week were negative for commodities:

- A new Trump Presidency points to higher tariffs, more US oil and gas production and a stronger Dollar.
- China’s fiscal package failed to impress.

While commodity prices fell on both announcements, they bounced relatively quickly. Price dips appear to be good entry points, especially if China has left dry powder for a further stimulus in the event of aggressive tariffs.



Source: WisdomTree, Bloomberg. 1am GMT, 1 November – 12 noon GMT, 8 November. President Trump was announced the winner of the US Presidential Election by the Associated Press around 10.30 GMT. National People's Congress Press conference took place at 8am GMT. **Historical performance is not an indication of future performance, and any investments may go down in value.**

A new Trump Administration

US President Elect Trump and his running mate, Vance led their campaign platform as **trade hawks**.

- Trump has floated the idea of a 10% or more tariff on all goods imported into the US, a move he says would eliminate the trade deficit.
- He has threatened to impose a 200% tariff on some imported cars, saying he is determined in particular to keep cars from Mexico from coming into the country.
- He proposes phasing out Chinese imports of goods such as electronics, steel and pharmaceuticals over four years. He seeks to prohibit Chinese companies from owning US real estate and infrastructure in the energy and tech sectors. A 60% tariff on all Chinese made goods has been floated.

Trump and Vance are also proponents of **more domestic oil and gas production**.

- Trump has vowed to increase US production of fossil fuels by easing the permitting process for drilling on federal land and would encourage new natural gas pipelines. He has said he would reauthorise oil drilling in the Arctic National Wildlife Refuge in Alaska.

Lower trade hurts commodities

As we highlight in our Commodity Outlook, lower global trade has historically been negative for commodity prices. The previous Trump Administration-driven trade wars led to a 11% decline in commodity prices in 2018 (based on Bloomberg Commodity Indices).

Trump's willingness to use Section 301 of the Trade Act of 1974 to expedite trade restrictions was demonstrated in his last presidency, so he may act quickly in delivering his promises.

Global oil oversupply

Global oil markets are already over-supplied and the Organization of Petroleum Exporting Countries (OPEC)'s willingness to sit and watch the US take a larger share of global demand is wearing thin. OPEC has already announced that they will unwind their production restraint that has kept the market in balance over the past two years. On 3 November, they had announced that they will delay the unwind until the end of the year, but it is unclear if they will keep postponing it. Giving up market share has been a painful act, as Saudi Aramco demonstrated last week with a 15% drop in Q3 profits[1] from a year ago.

Oil demand weakness stems from China. In 2023 the China accounted for 70% of oil demand growth. This year, it likely only account for 20% of growth[2]. To be clear, oil demand growth in 2024 is likely to be under 1 million barrels per day, less than half the 2 million barrels per day growth in 2023[3]. We are not expecting a significant pickup in oil demand growth in 2025 either. China's economy has been weak, and it is electrifying quickly too, reducing its reliance on imported oil.

Whether US producers will expand oil production, even if they have the Federal approvals, is another question. Weak prices may discourage them. But we don't think OPEC will want to encourage them by boosting prices through aggressive supply tightness.

China's National People's Congress meeting

The Standing Committee of the National People's Congress (NPC) concluded its week-long meeting on 8 November with an announcement of a **programme to refinance local government debt**. The programme consists of 6 trillion yuan ($839 billion) in new bonds over three years and a further 4 trillion yuan ($558 billion) in previously announced bonds over five years to restructure their finances. In September its central bank, the People's Bank of China, injected a high dose of monetary stimulus and markets were expecting a fiscal follow-through from the government. Apart from the local government debt refinancing programme the NPC offered **no additional announcements of measures to directly stimulate its domestic economy**. The package therefore disappointed the markets.

China, as a key target for the new Tump Administration's trade policy is likely to suffer an economic blow. It is barely healing from the real estate implosion it has suffered over the past two years. China had a choice to get ahead of the tariffs by boosting its domestic economy beforehand. It appears it has chosen to wait and see how damaging the trade restrictions will be before offering its next big move.

New entry points

We believe the new Administration could begin the process of implementing tariffs shortly after Trump's inauguration on 20 January 2025. With Republicans controlling the Senate and looking hopeful to have a House of Representatives majority, he may get the backing he needs relatively swiftly.

So, we believe that China will need to deploy its countermeasures relatively soon. Its best option is to stimulate its domestic economy rather than engage in big tit-for-tat trade restrictions. In the last trade war, it restricted US soybean imports. But back in 2017 China sourced a third of its soybean imports from the US[4]. Now it only imports a fifth from the US[5], watering down this threat. China may continue to restrict exports of its own materials that are strategically important, like it has done with gallium, germanium and graphite, but these could be met with further hostility from the US.

If this stimulus is forthcoming, the commodity price dips could open up good entry points in metals.

Oil is less clear-cut given China's desire to electrify. But a rapid pickup in energy needs won't be met by electrification alone and hence we think oil could benefit, if OPEC doesn't use the opportunity to drive up its market share.

Implementation

WisdomTree has a range of base metal exchange-traded products which could benefit from China using its dry powder in due course. Some examples include:

WisdomTree Copper (COPA) and WisdomTree Aluminium (ALUM) which are fully collateralised, UCITS eligible exchange-traded commodities (ETCs) based on single commodities. WisdomTree Energy Transition Metals (WENT) and WisdomTree Industrial Metals Enhanced (META) provide exposure to baskets of metals. WENT leans into the energy transition and weights each metal by their demand profile in the transition. META uses roll optimisation to reduce drag from markets in contango (upward sloping futures curves).

[1] Source: Reuters, Aramco maintains dividend as profits slump
[2] Source: International Energy Agency
[3] Source: International Energy Agency
[4] Source: Bloomberg
[5] Source: Bloomberg

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for

distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

Jersey Issuers

The products discussed in this document are issued by WisdomTree Metal Securities Limited and WisdomTree Commodity Securities Limited (the "Issuer"). The Issuer is regulated by the Jersey Financial Services Commission. Investors should read the prospectus of the Issuer before investing and should refer to the section of the prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the securities offered by the Issuer.

WisdomTree Commodity Securities Limited

Securities issued by the Issuer are direct, limited recourse obligations of the relevant Issuer alone and are not obligations of or guaranteed by Citigroup Global Markets Limited (“CGML”), Citigroup Global Markets Holdings Inc. (“CGMH”), Merrill Lynch International ("MLI"), Bank of America Corporation ("BAC") or any of their affiliates. Each of CGML, CGMH, MLI and BAC disclaim all and any liability whether arising in tort, contract or otherwise which they might have in respect of this document or its contents otherwise arising in connection herewith. “Bloomberg®” and the Bloomberg Commodity Index(es)SM referenced herein are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (“BISL”), the administrator of the indices (collectively, “Bloomberg”) and have been licensed for use for certain purposes by WisdomTree UK Limited and its permitted affiliates including WisdomTree Commodity Securities Limited (together, WisdomTree). Bloomberg is not affiliated with WisdomTree, and Bloomberg does not approve, endorse, review, or recommend the exchange-traded product(s) referenced herein.

Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the index(es).

WisdomTree Multi Asset Issuer PLC

WisdomTree Multi Asset Issuer PLC (the "Issuer") issues products under a Prospectus ("WTMA Prospectus") approved by the Central Bank of Ireland, drawn up in accordance with the Directive 2003/71/EC. The WTMA Prospectus has been passported to various European jurisdictions including the UK, Italy and Germany and is available on this document.

WisdomTree Multi Asset Issuer PLC Exchange Traded Products ("ETPs") are suitable for financially sophisticated investors who wish to take a short-term view on the underlying indices and can understand the risks of investing in products offering daily leveraged or daily short exposures.

ETPs offering daily leveraged or daily short exposures ("Leveraged ETPs") are products which feature specific risks that prospective investors should understand before investing in them. Higher volatility of the underlying indices and holding periods longer than a day may have an adverse impact on the performance of Leveraged ETPs. As such, Leveraged ETPs are intended for financially sophisticated investors who wish to take a short-term view on the underlying indices and understand such risks. As a consequence, WisdomTree is not promoting or marketing WisdomTree Multi Asset Issuer PLC ETPs to retail clients. Investors should refer to the section entitled "Risk Factors" and "Economic Overview of the ETP Securities" in the WTMA Prospectus for further details of these and other risks associated with an investment in Leveraged ETPs and consult their financial advisors as needed. Neither WisdomTree, nor the Issuer has assessed the suitability of any Leveraged ETPs for investors other than the relevant Authorised Participants.

Short and leveraged exchange-traded products are only intended for investors who understand the risks involved in investing in a product with short and/or leveraged exposure and who intend to invest on a short term basis. Any investment in short and/or leveraged products should be monitored on a daily basis to ensure consistency with your investment strategy. You should understand that investments in short and/or leveraged exchange-traded products held for a period of longer than one day may not provide returns equivalent to the return from the relevant unleveraged investment multiplied by the relevant leverage factor. Potential losses in short and/or leveraged exchange-traded products may be magnified in comparison to investments that do not incorporate these strategies. Please refer to the section entitled "Risk Factors" in the relevant prospectus for further details of these and other risks associated with an investment in short and/or leveraged exchange- traded products. You should consult an independent investment adviser prior to making an investment in short and/or leveraged exchange-traded products in order to determine its suitability to your circumstances.

For Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

In Switzerland, this communication is only targeted at Qualified Investors.

The prospectus and the key investor information documents (KID) are available from WisdomTree's website: **https:** //www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports