



US Election Impact on Commodity Markets

Alexandre Andlauer , Florian Gruenberger, Reid l'Anson

November 2024



Macroeconomic policy outlook

Trump Economic Policy

Four key policy pillars

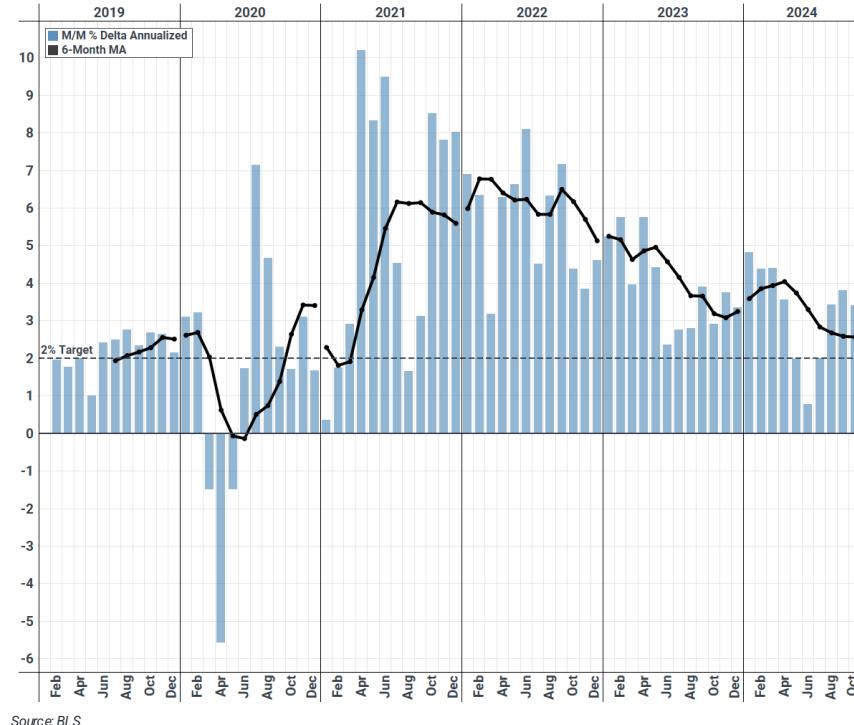
The incoming Trump administration will pursue **four key economic policy pillars**, all of which are inflationary.

1. Aggressive import tariff implementation, especially on Chinese goods.
2. Heavy restrictions on immigration; step up in border enforcement.
3. Pursuit of (continued) deficit spending, largely via tax cuts.
4. Challenges to Fed independence; appointment of governors who believe in a lower neutral rate.

Questions around the extent of follow through for these policies.

- Tariffs, immigration restrictions, and tax cuts look very likely. Look for movement within the first 100 days.
- Challenges to Fed independence a bit of an open question. Expect heated rhetoric and the steady appointment of new governors. Legislative changes are unlikely.

US One-Month and Six-Month Rate of Annualized Core Inflation (%)



Source: BLS

Trump Economic Policy

Evidence of sticky inflation incoming next year

Our view is that the **US economy continues to perform above trend** and the **labor market is far less weak than many in the market had implied**.

- GDP continues to hold above 2% led by strong household consumption.
- Labor market has weakened in past year, but some of this was due to rapid increase in labor force. Strong Sept jobs numbers a confirmation things are not falling apart.

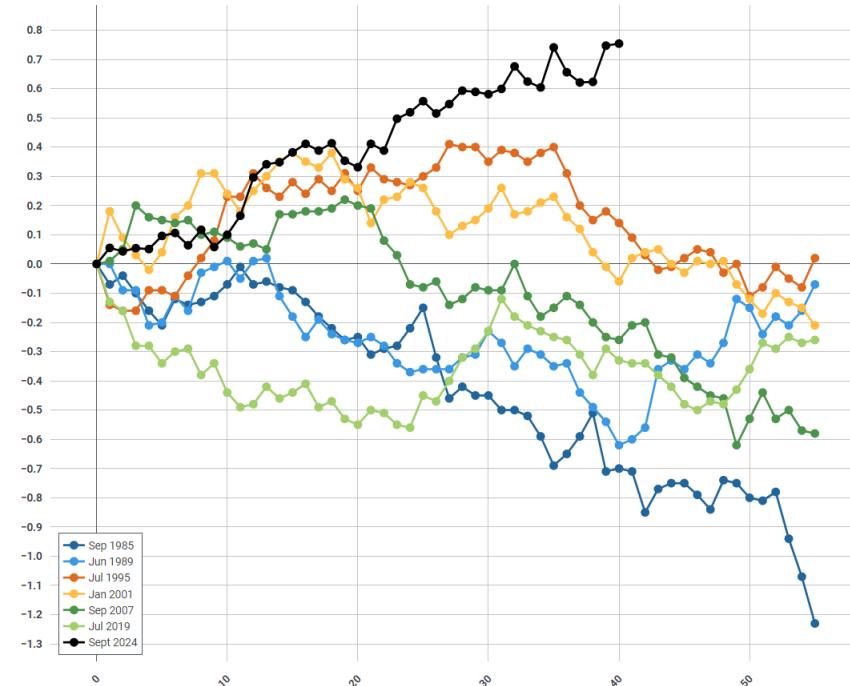
The Fed cuts have come amid a strong US econ backdrop. This **introduces the risk inflation gets sticky next year**.

- Powell opened the door to pausing in December. Our base case is one more 25 bp cut before pausing.

10-year yields have surged following the first rate cut. At peak, yields had rallied more than 70 bp, towards the upper end of the historical range.

- This is a trade on expectations of higher inflation and deficit spending.

10-Year Bond Differential Against Start of Rate Cutting Cycle (%)



Source: FMP

Post-Election Impacts on Markets

Pressure on almost every market outside the US

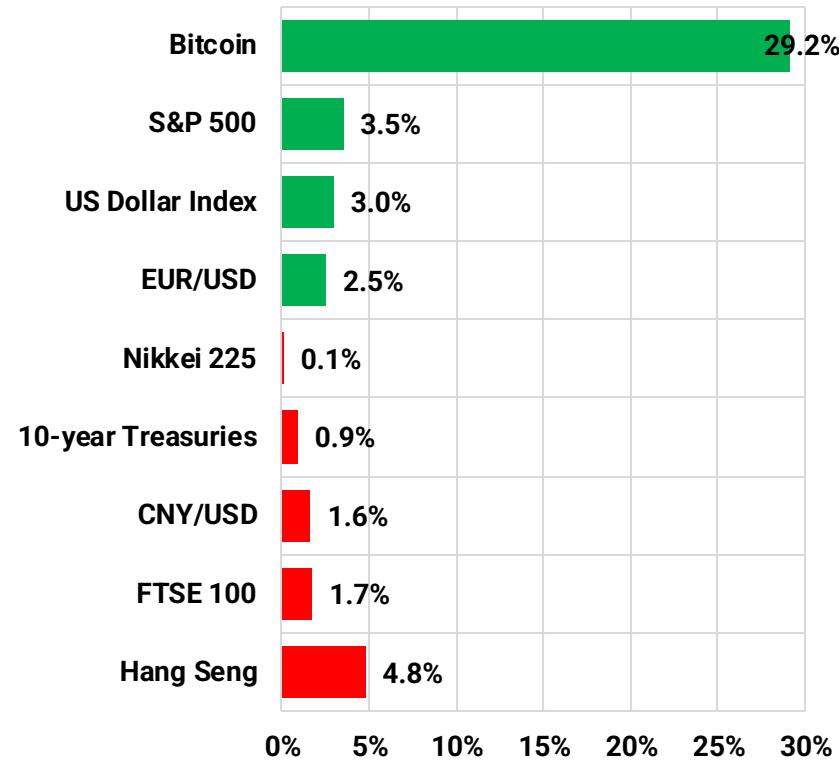
Currency traders are betting on a broadly stronger USD. Bitcoin emerged as the clear winner, reaching unprecedented highs above \$93,000.

Investor exposure to U.S. stocks surged to its highest level since 2013 driven by optimism for stronger economic growth.

- In the third quarter, S&P 500 companies reported an 8.4% profit increase, double the expected growth rate.
- **Energy Stocks:** Significant gains driven by anticipated deregulation and expanded drilling opportunities.
- **Tech Stocks:** Mixed results; Tesla up 12% on Trump support, but broader tech cautious due to trade and antitrust concerns.
- **Small-Caps:** Russell 2000 stocks surged, benefiting from renewed appetite for end-of-year performance gains in volatile assets.

The Hang Seng Index fell by 4.8%, reflecting investor concerns over potential trade tensions and tariff implementations under the new administration.

Relative asset performance since US Election on Nov 05 (%)



Source: Kpler calculations based on MarketView

Post-Election Impacts on Markets

Oil, copper, and gold have all broadly sold off since Trump won the White House

Inflationary policies didn't drive investors to commodities as a primary trade.

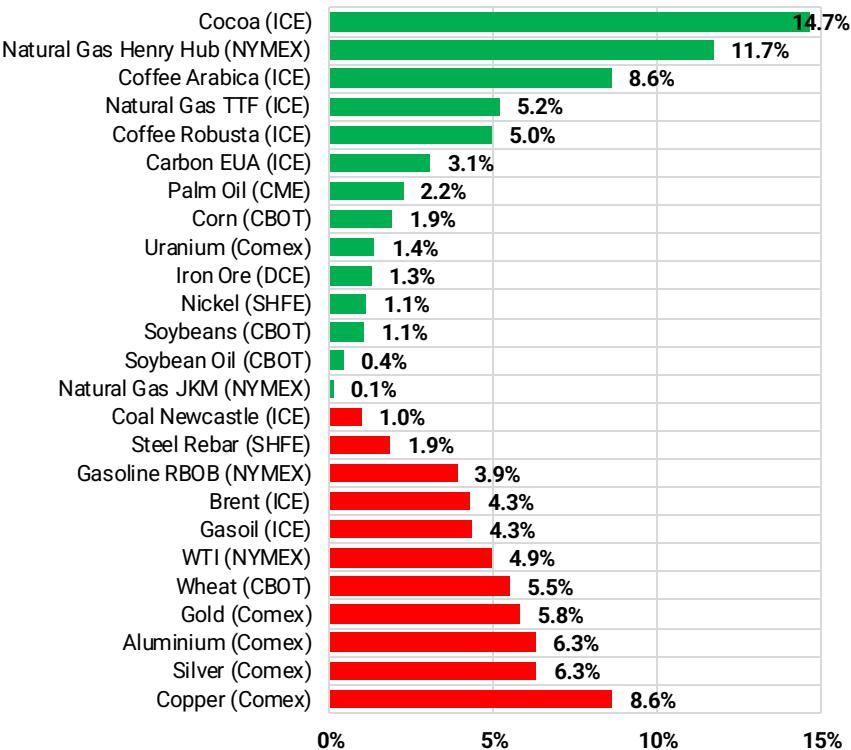
- Currency fluctuations and tariff concerns on China have heavily influenced commodity market movements.
- Among metals, copper and aluminum have surprisingly been the worst performers, likely affected by China's economic concerns and the broader impacts of a stronger U.S. dollar.

U.S. natural gas prices have climbed, driven by colder weather and a drop in supply from October highs.

- Trump victory provided a catalyst.
- Price increase is fundamentally supported by market optimism for expanded U.S. LNG exports and favorable weather forecasts. In Europe, increased TTF due to weak renewable generation, colder weather driving higher withdrawals.

Oil prices were pressured by tariff concerns, a stronger dollar, and expected OPEC production increases, all fueling fears of oversupply next year.

Relative commodity performance since US Election on Nov 05 (%)



Source: Kpler calculations based on MarketView

Implications for commodities – crude oil

Crude: Implications for Commodities

US crude production will undergo a moderate 380 kbd y/y gain in 2025

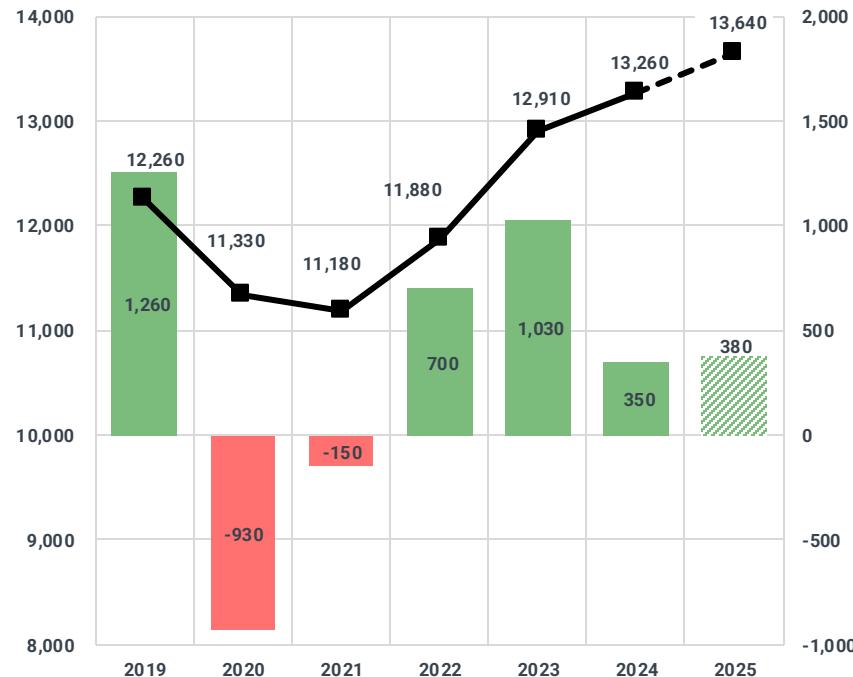
Cut to Iranian exports and supply could tighten a 2025 balance that currently is longer than usual because of:

- **Weak refining margins (Q4-24/Q1-25)**
- **Re-acceleration in non-OPEC+ supply:** US, Canada, Brazil, and China (!) producing near record highs right now.

Limitations to US supply growth next year:

- **Decline in upstream activity:**
 - Rig counts near multi-year lows,
 - Limited number of DUCs
 - Continued strong shareholder returns.
- Prices still above shale break-evens (\$55-65), but: US shale players aware of OPEC+ spare capacity.
- **Kpler outlook on US supply in 2025:** 13.6 Mbd (+380 kbd y/y, driven by offshore projects (Shell's 100 kbd Whale, Chevron's 75 kbd Ballymore)).

Yearly US Oil Production (kbd, left) and Y/Y Delta (kbd, right)



Source: Kpler

Crude: Implications for Commodities

Iranian exports poised to decline 500 kbd by mid-2025

At 1.5 Mbd, Iran turned into China's largest seaborne crude supplier in 2024 ytd (still behind Russia when including pipeline). Potential sources to replace Iranian crude:

Sanctioned:

- **Venezuela:** 60 kbd
- **Russia:** 130 kbd

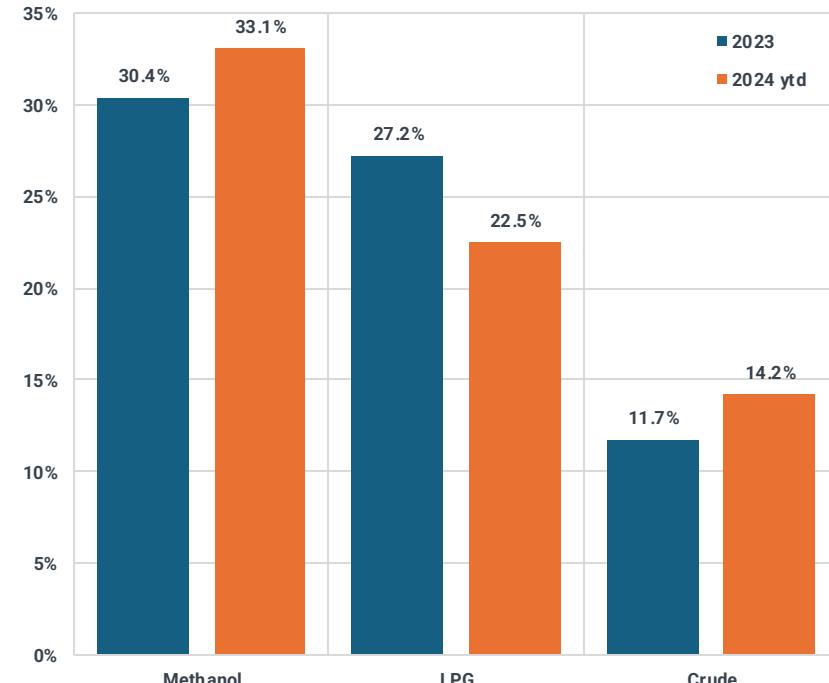
Non-sanctioned:

- **Saudi Arabia, Kuwait, UAE:** greatest potential at 700 kbd – 1 Mbd + similar qualities to Iran Light/Heavy
- **West Africa** (Angola, Congo): 220 kbd
- **US:** new offshore supply 175 kbd
- Canada (TMX), Latin America, North Sea, Southeast Asia: very limited upside

Even greater market impact relatively:

- Methanol (Iran is China's largest provider)
- LPG (second largest provider behind US)

Iranian Share of Chinese Imports (%)



Source: Kpler

Crude: Implications for Commodities

Expect elevated volatility and bearish long-term impact across crude

\$2-3 price upside in **medium-term (2025)** under Trump

- Maximum pressure Iran sanction regime:
 - Iranian exports at record high under US sanctions of 1.8 Mbd in Sep-24.
 - Iranian exports **-500 kbd by mid-2025**

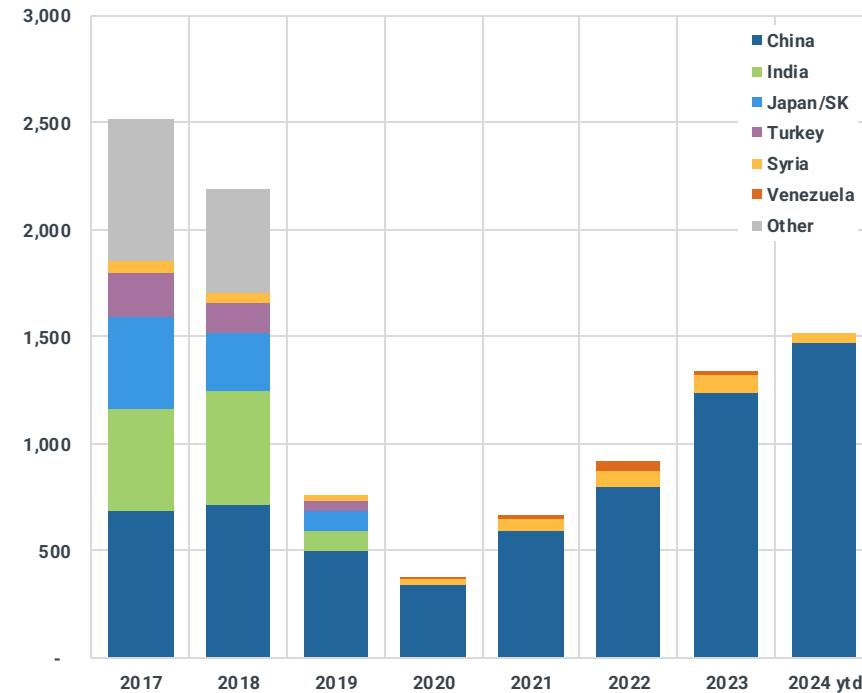
Still, oil price upside limited to \$80/bbl:

- Trump will push OPEC+ to compensate for lower Iranian exports.
- If prices allow: OPEC+ will bring back some of the 5.6 Mbd withheld.

Trump moderately bearish in the **longer-term (2026+)**

- "Drill, baby, drill" but: government impact limited:
 - 20% of US oil supply on public land
 - US upstream focusses on prices
- Greater impact via expedited infrastructure:
 - Keystone XL (cancelled by Biden)
- Easing of Russia sanctions?

Yearly Iranian Seaborne Crude Exports by Destination (kbd)



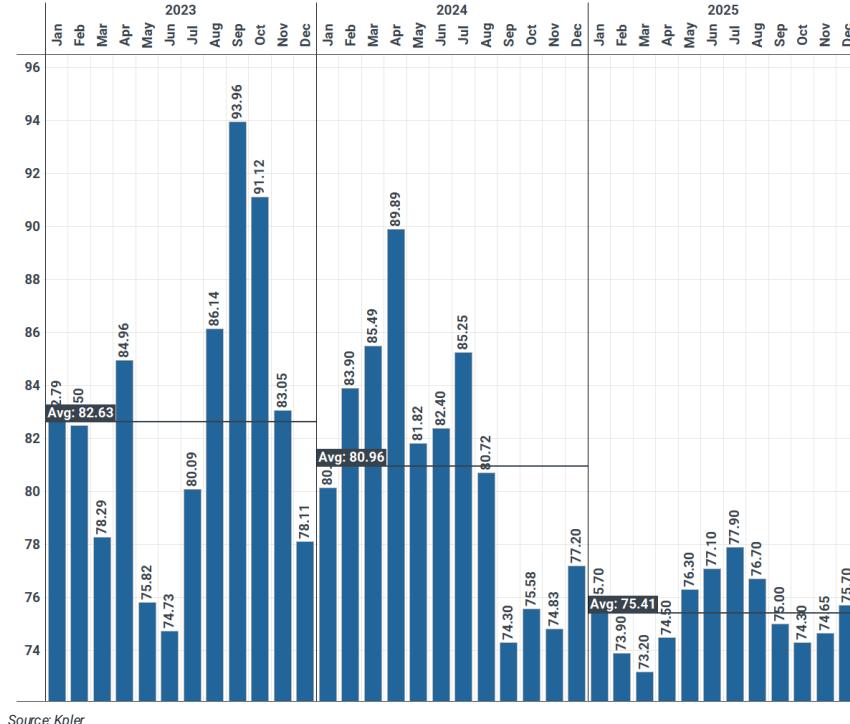
Source: Kpler

Crude: Implications for Commodities

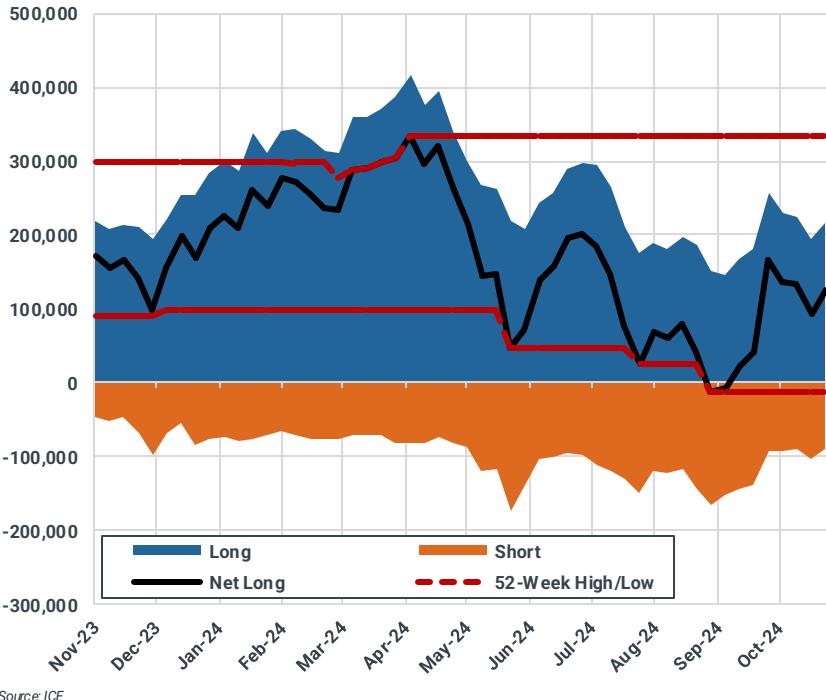
We see prices averaging out at just above \$75/bbl next year

11

Monthly Brent Spot Oil Price Forecast (\$/bbl)



Weekly Brent Contract Speculative Positioning



Implications for commodities – natural gas

Natural Gas: Implications for Commodities

Trump is set to quicken the pace of LNG export approvals

US LNG exports:

- End to the DOE's pause on non-FTA permit approvals for LNG export projects. Potentially swift approval of up to **124 Mtpa of LNG projects** that are either awaiting **new non-FTA DOE permits** or that will require an extension.
- **US tariffs** increase the cost for US LNG projects (but: potential carve-outs)
- **Retaliatory tariffs** impact the competitiveness of US LNG

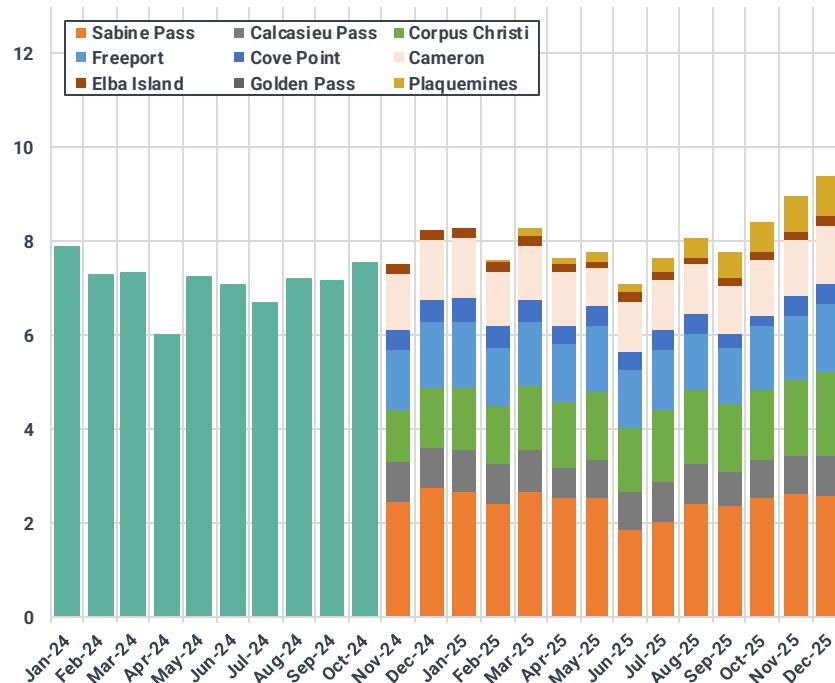
US natgas supply:

- Mainly driven by market forces - producers keep managing output based on prices dynamics.

US natgas demand:

- Upside potential to US utility demand limited:
 - Slowdown in renewables/reduction in IRA incentives limited.
 - Natgas share of US power gen already very high (>43%)
 - Requirements for clean power generation mostly regulated on a state-level

Monthly US LNG Export Capacity by Terminal (Mt)



Source: Kpler

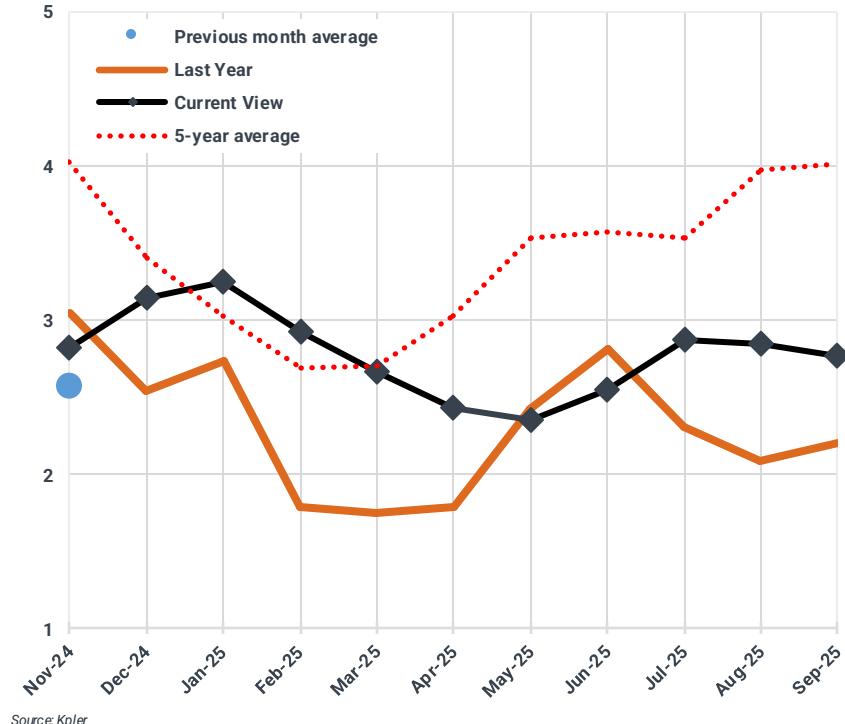
Natural Gas: Implications for Commodities

Trump bullish for HH, but near-term prospects muted

Bullish Henry Hub:

- More export demand from **additional LNG capacity**
- Expectations of a **stronger US economy** + higher US manufacturing activity due to less imported goods.
- Short-to-medium term:
 - **High stocks** (2023/24 end-of-winter levels 40% above the 5-year average)
 - Slow start to the heating season
 - Producers keep managing output based on market prices. **Plenty of withheld supply** (significant drilled but unproducing wells) **limits price upside.**
- Kpler HH forecast: peak at \$3.25/MMBtu (Jan-25), bottom out at \$2.35/MMBtu (May-25).

Henry Hub Price Forecast (\$/MMBtu)



Implications for commodities – metals

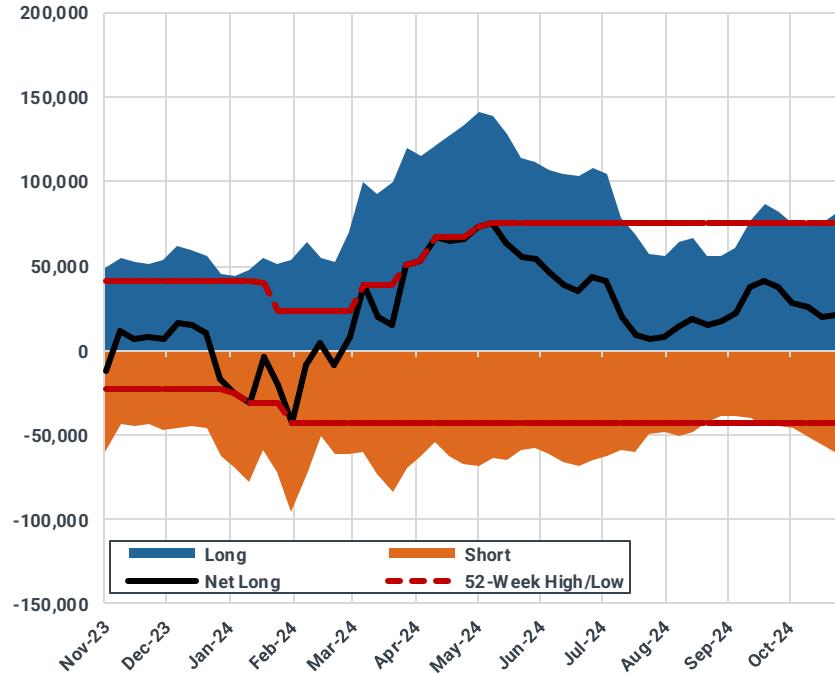
Copper: Implications for Commodities

Copper demand revisions limited given continuation of Inflation Reduction Act

Full-scale repeal of Inflation Reduction Act very unlikely:

- **Most IRA investment + 60% of IRA-related job creation over past 2 yrs in Republican congressional districts.**
- IRA a **net benefit to oil firms:**
 - CCUS: tax credit from \$50 to \$85/mtCO2e
 - Clean hydrogen: production tax credit up to \$3/kg
 - 60m acres of offshore public land for exploration/year
- **End of EV subsidies unlikely:**
 - Trump not against EVs per se but against banning ICE cars + Trump/Musk allegiance
 - But: EPA under Lee Zeldin to **moderate EV mandate**
- Also: **No corporate tax hike** under Trump, **private investment** into renewables likely to remain **intact**.
- But: fine line to walk reg. Renewable Fuel Standard

Weekly Copper Contract Speculative Positioning



Source: CFTC

Copper: Implications for Commodities

US tariffs set to weigh on copper demand

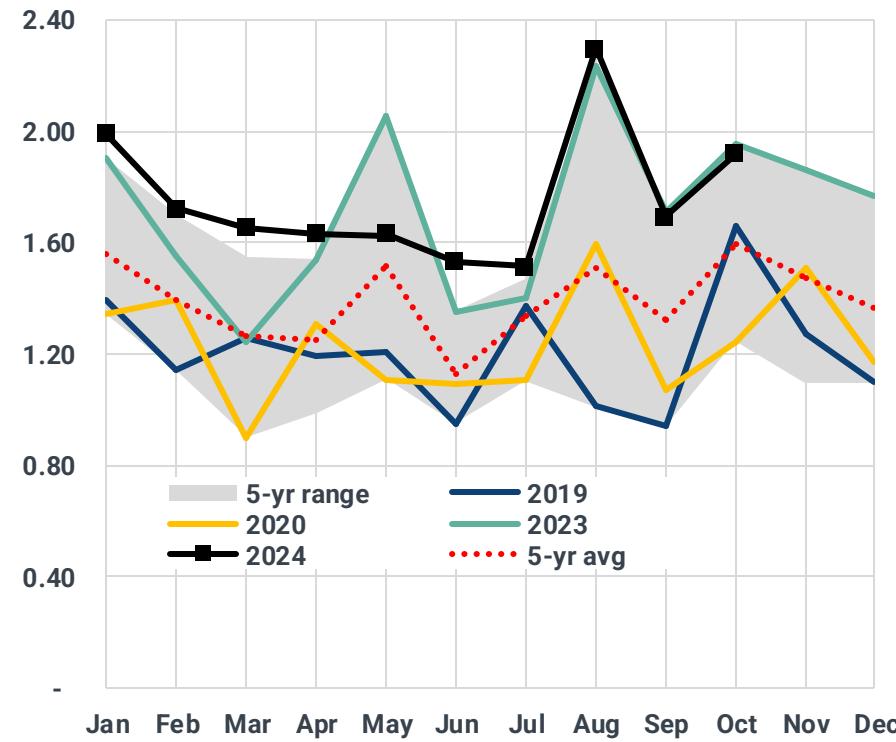
The extent of Chinese fiscal stimulus has disappointed + was targeted towards **manufacturing rather than** (more copper-intensive) sectors **property and infrastructure**.

Still: strong Chinese copper concentrate imports + **record Chinese copper cathode production**:

China's expansion in **renewables capacity** keeps **accelerating** (+152 GW in 2022, +293 GW in 2023, +346 GW Jan-Sep 2024), **dampening impact from low construction activity**.

- 2024 ytd: firm **Chinese exports provide outlet for record production**, but have weakened: US tariffs (September 27) include copper-intensive goods:
 - EVs (25% → 100%)
 - Solar cells (25% → 50%)
 - Li-ion batteries (7.5% → 25%)

Monthly Chinese imports of copper concentrate (Mt)



Source: Kpler

Copper & Aluminum: Implications for Commodities

A Trump victory amplifies copper weakness versus aluminum

Tariffs on Chinese imports: **larger price impact on aluminium than on copper.**

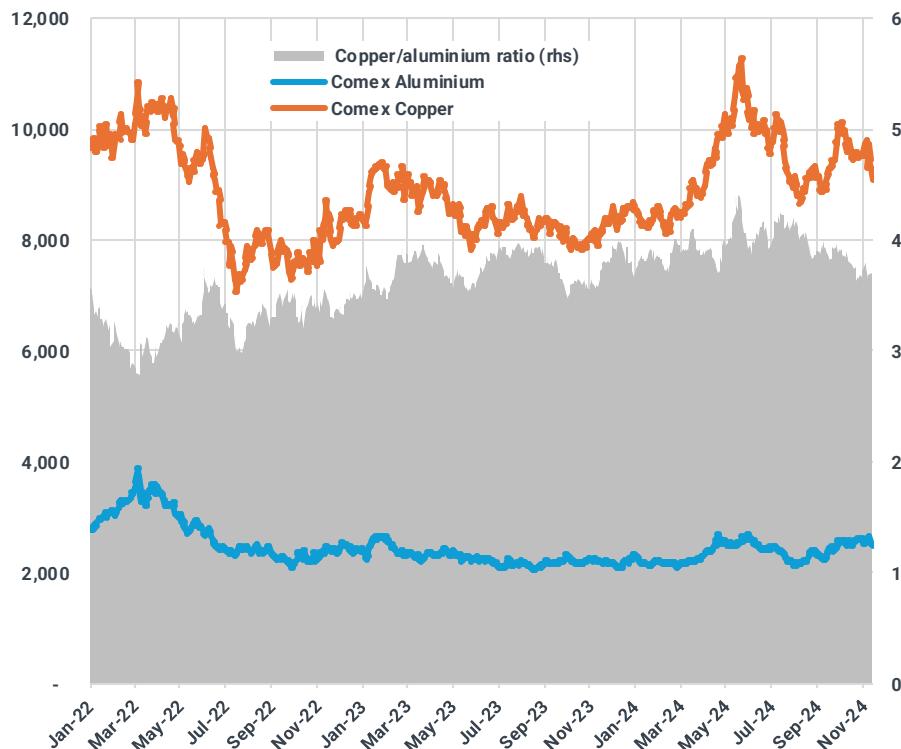
- **Greater US import dependence on aluminium:**
 - Aluminium: 5.46 Mt (bauxite: 2.87 Mt, 2023)
 - Refined copper: 0.89 Mt (copper conc. negligible)
 - 2018: US aluminium price surge after Section 232 tariffs.
- **China's dominance in aluminium even exceeds its pivotal role in copper as it:**
 - Imports 85% of global seaborne bauxite volumes (vs 57% of copper concentrate)
 - Mines 23% of global bauxite (vs 8% of copper)

China is the 3rd largest supplier of aluminium to the US (but well behind Canada) whereas US refined copper imports are dominated by Chile, Peru, Mexico (>93%).

Further weakening in the Comex aluminium-copper ratio.

- Other factors exacerbating this trend: Guinean export constraints, renewed promotion of swapping copper with aluminium in China.

Daily COMEX Copper and Aluminum Ratio (\$/Mt)



Source: Kpler calculations based on COMEX pricing

Gold: Implications for Commodities

Gold has come under pressure from rising rates, and a much stronger USD

The **bull case for gold** could certainly be made on the basis of continuing **geopolitical tensions**, and concerns around **structurally higher inflation**.

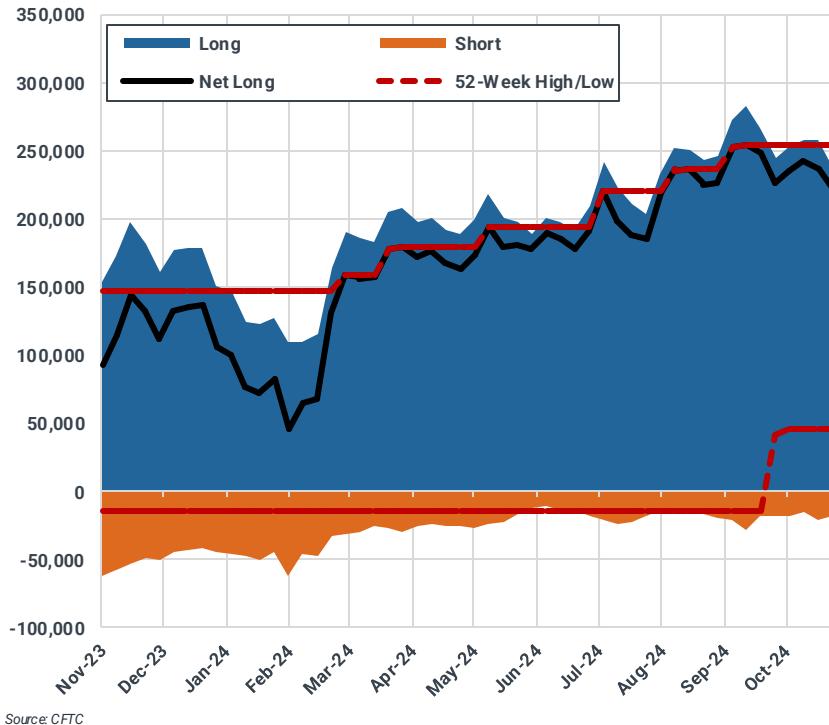
However, at least for now, gold prices have come under **selling pressure** from several other factors:

1. Rising long duration interest rates
2. A reduction in expectations for Fed cuts next year
3. Rapidly strengthening USD

Speculative positioning, while still overly bullish, has at least seen net longs ease off the multi-year highs from early-October.

- It is Kpler's view that **gold could struggle to find its footing through the rest of this year**. 10y yields will likely test 4.5 – 4.6% several times in the coming months.

Weekly Gold Contract Speculative Positioning



Implications for commodities – grains

Corn & Soybean: Implications for Commodities

US tariffs on biodiesel feedstocks could increase domestic soybean demand

The US accounts for a **fourth** of global seaborne **soybean** and a **fifth** of global seaborne **corn** exports.

The **US share of Chinese imports** has steadily **declined** in recent years (most replacement volumes from Brazil).

- China has been preparing for a Trump victory for months and has increased domestic soybean stocks as a buffer.

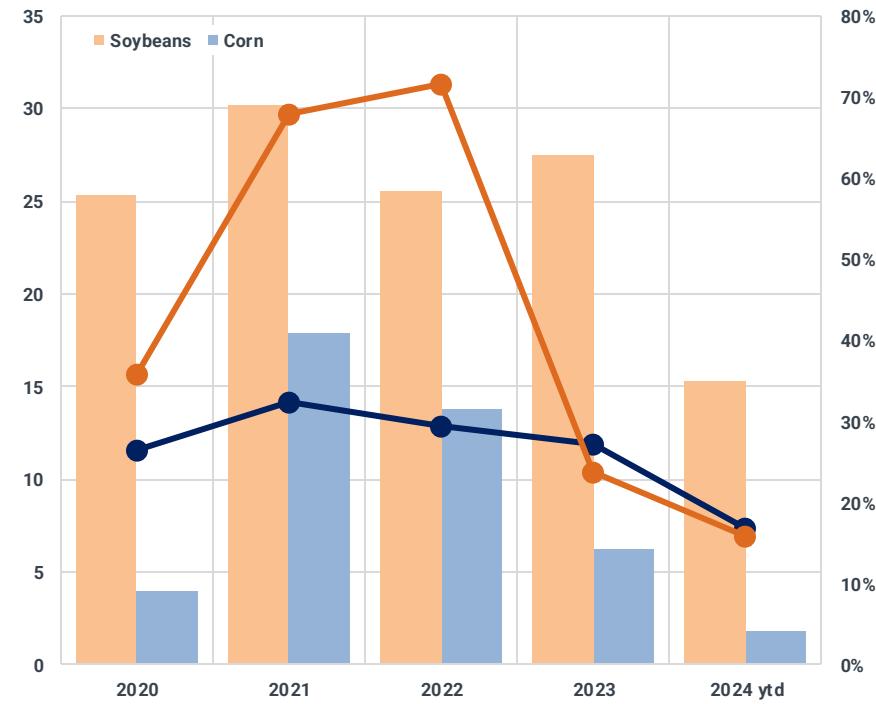
A **US-China trade war** could therefore have a **greater impact on US export volumes of soybeans than on corn**.

For now, there are **greater US domestic use cases for corn**:

- The US biofuels market needs **corn-based ethanol (D6 RINs)** to fulfill blending mandates from the Renewable Fuel Standard.

But: Potential **need to revive US soybean crushing cap**. Likely US tariffs on biodiesel feedstocks (UCO from China and tallow from Brazil) that have flooded the US market.

Yearly Chinese Imports of US Corn and Soybean (Mt, left) and as % of Total (right)



Source: CFTC

Corn & Soybean: Implications for Commodities

Initial bearishness has since given way to consistent price appreciation

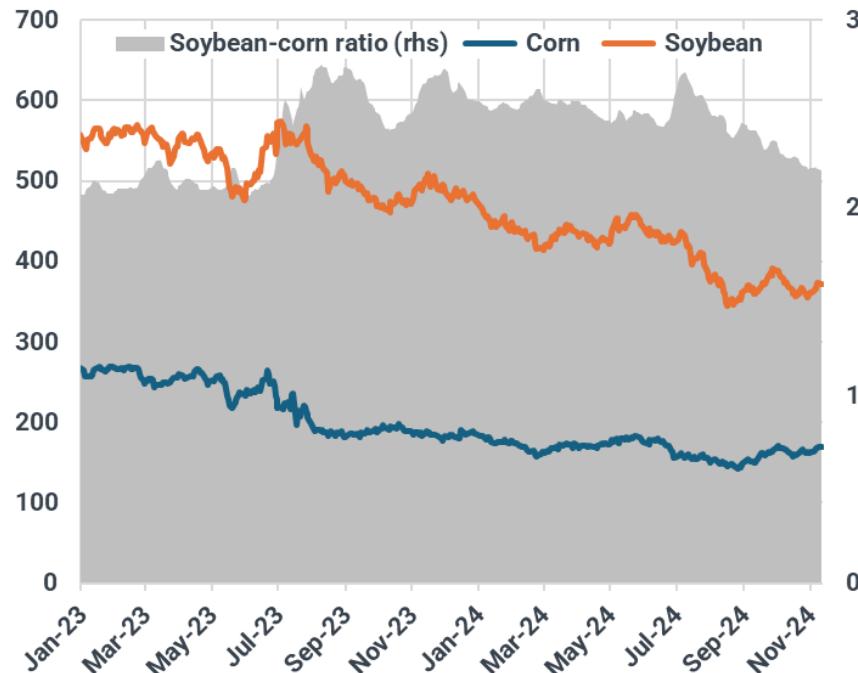
- A Trump win was initially considered bearish for soybeans due to trade war fears and prices dropped 2% in overnight trading on 5-6 Nov.
- However, strong demand (e.g. from South Korea) has kept soybean prices supported since, despite a strong US harvest.
- This could avoid large US ending stocks in August 2025, and therefore, **a potential trade war with China will only affect the 2025/26 soybean balance.**

Conclusion: Even though US soybeans are in principle more exposed to Chinese tariffs than corn, we see support for soybeans from:

- Strong non-Chinese export demand
- Potentially growing domestic US crushing demand
- **Soaring palm oil prices**

→ Floor to a further weakening in the soybean-corn ratio.

Daily COMEX Soybean, Corn Price (cents/bushel) and Ratio (right)



Source: Kpler calculations based on COMEX

Thank you!