Politics and policies, do they drive the commodity markets?

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ADVISORY

ABN 87 648 234 975

1300 746 466
hello@pinionadvisory.com
pinionadvisory.com

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Author
Rohit Lakhotia
Consultant, Commodity Risk Management

Introduction

We are currently living in the world that is constantly changing and evolving. History has shown us that changes in our surroundings can significantly influence our political ideologies and perspectives towards politicians. Correspondingly, a political change does not occur in isolation, but rather it is the consequence of economy, social process and circumstances. It is widely recognised that commodity and financial markets are influenced and are receptive to both political shifts and policies. The politicians we elect make decisions that they believe are best for us as a community and as a country.

Impact of US elections on trade

On November 5, 2024 Republican candidate Mr Donald Trump won the US election and is set to assume office as the 47th President of the United States on January 20, 2025. Even before taking charge as a President, ideological thoughts of President-elect Mr Trump had made an impact in US print and media. Among his various ideologies, economic nationalism is particularly significant, as it is expected to have a profound effect on commodity and financial markets and would be highly receptive. Economic nationalism prioritises intervention in the US economy, including policies like domestic control and the use of tariffs and restrictions on goods and capital entering US markets. This approach is in direct opposition to globalisation and unrestricted free trade.

Mr Trump has begun to control his surroundings and exert his influence with tools like imposing tariffs to uphold national interest above everything else. Canada and Mexico are the first ones to bear the brunt of economic nationalism, along with China. Additionally, issues concerning high usage fees for the Panama Canal have attracted attention from the Trump administration, which would like Panama to return the canal to the US unless it manages the waterway in a financially acceptable manner to the Republicans.

Apart from the mentioned trade conflicts, another potential game-changer for commodity markets is the **US Farm Bill**. With Mr Trump's return to office and a Republican majority in the Senate, the long-delayed US Farm Bill is more likely to pass, offering stability to US farmers. The current Farm Bill is comprehensive legislation that underpins food and agriculture policy in the US. The Republicans have prioritised passing this bill, especially amid rising costs and declining crop prices. The enactment of a new Farm Bill will benefit US farmers who are currently facing declining prices for many crops and rising costs for fertilisers and other inputs. For Australian grain growers, this could mean increased competition in global commodity markets, particularly if US subsidies result in lower production costs for the upcoming new season crops. This would result in more grains flowing out of US to the consumptive countries at competitive prices, thereby adding pressure to already subdued grain prices.

Coming to the currency aspect in commodity markets, we all know how dominant the US dollar is. All the freight, insurance and pricing on commodities are quoted and settled in USD. In the last five months, we have seen both commodity markets and financial markets settle down after a brief rally around Mr Trump winning the US election. However, the US dollar has grown stronger against all other currencies on the back of interest rate cuts and stronger monetary policies. A sentimentally stronger US dollar is an indication that the US economy is better prepared to handle slowdown and recession, which many economists have been talking about.

A strengthening US dollar is not great news for the rest of the world's economy. A strong US dollar tends to depress global trade growth, restrict developing countries access to international capital markets and make it more difficult for countries whose currencies will be weakening to keep inflation under control.

If the US dollar becomes unsustainably expensive, a further problem will present itself: how to deal with an overvalued US currency without risking a financial dislocation. The current overvaluation of the US dollar, which began after Trump's re-election, brought back memories of 2018 when Trump began imposing trade restrictions on China in January of that year.

Conclusion

With President-elect Mr Donald Trump taking charge of office on January 20 this year, one can say that 'the game's afoot'. US being the world's largest economy, its trade policies directly influence global trade dynamics of demand and supply. As Australian and US interests have always aligned towards global trade and policies in the past, we can only hope that it continues further as well. However, US-China trade tensions may defy Australia to choose a side between US being an old ally and China being a consumptive market, which might bring unpredictability in both commodity and financial markets.

The bottom line: As a successful American investor, Peter Lynch once said, "know what you own and know why you own it." With prevailing political beliefs and ideologies in the US likely to introduce volatility in the grain markets, making them unpredictable. To navigate these challenging times, it is crucial to adopt a more proactive and less complacent approach to decision-making. It is advisable to secure your cash outflows for the next 90 days. Brief periods of favourable pricing opportunities will arise; seize these moments to tidy up your tonnages and generate cash inflows. This strategy will mitigate your risk exposure to market volatility and support the growth and profitability of your business.