Oil May Hold The Secret To Ending The Trade War

By Haley Zaremba

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On Wednesday, U.S. president Donald Trump crushed any hopes of a trade deal with China when he announced that China "broke the deal" and that, as a consequence, the U.S. will enforce even higher tariffs on some imports from China starting on Friday, May 10.

When the world's first and second largest economies are quarrelling, it goes without saying that it puts the entire global market on edge. The international oil market is no exception. According to MarketWatch, "Those concerns have more than offset the price-supportive weekly decline in U.S. crude inventories reported Wednesday, though traders continue to keep watch on growing tensions between the U.S. and Iran, which raises the threat of disruptions to Middle East output." Crude prices in the U.S. fell as well. The West Texas Intermediate crude benchmark "fell 42 cents, or 0.7 percent, to settle at $61.70 a barrel on the New York Mercantile Exchange", putting prices "on track for a weekly loss of 0.4 percent".

According to some experts, however, the dip in crude prices is just temporary. With global crude supply tightening thanks to sanctions on Iran and Venezuela, as well as a surprise decline in U.S. crude production, long-term price projections are looking up. In fact, West Texas Intermediate and Brent futures are up by 30 percent or more year to date, and MarketWatch reports that analysts at Barclays are extremely optimistic, already increasing their third-quarter forecasts by $4 each for both benchmarks.

Barclays analyst Amarpreet Singh went on to tell MarketWatch that, "lower output due to planned maintenance in the North Sea and the Caspian Sea over the next few weeks, coupled with dwindling Iranian exports due to tighter U.S. sanctions and what has so far been a very measured Saudi response just before the peak demand season, should support prices, in our view.” **Related: Iraq Close To Signing Mega $53 Billion Oil Deal**

Not all experts agree with this outlook, however. David Sheppard of Financial Times, who says that the threat of a trade war with China is a “more immediate risk” than any Mideast geopolitics and U.S. sanctions putting the squeeze on global oil supplies. In fact, Sheppard’s opinion piece argues that the United States’ trade dispute with China may actually be a roundabout way of achieving just what the Trump administration wants: lower oil prices.

“If US president Donald Trump wants the lower oil prices he has consistently demanded, then escalating a trade war with China is one unconventional method of meeting that short-term goal,” Sheppard writes. Where the U.S. was once the world’s biggest importer of crude oil, this distinction is now given to China. Together with the U.S., the first and second biggest economies in the world represent nearly a third of total global oil consumption. ”So the duo plays an outsized role in the oil market, before even starting to account for the spillover effects that a damaging trade war would have on the wider global economy.”

This is all to say that the far-reaching economic implications of a trade dispute between these two giants should not be underestimated. And although oil is not the major point of contention between the U.S. and China, its role should not be dismissed, nor should its precarious position thanks to the massive share of the oil market that the U.S. and China dominate. This means that energy could also play a key role in the ultimate resolution of the currently escalating trade war.

The United States has become one of the most important energy producers--and currently the fastest growing producer of “global energy supplies” -- thanks to the shale oil boom in the West Texas Permian Basin. At the exact same time, China has become the fastest-growing energy consumer, especially when it comes to oil and liquefied natural gas--both of which the U.S. has in spades. “So while the dispute around tariffs goes far beyond trade balances,” argues Sheppard, “energy is one area where the two countries have a mutual interest in finding common ground.”

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