HORIZONS

Trading cases
Tariff scenarios for taxing times

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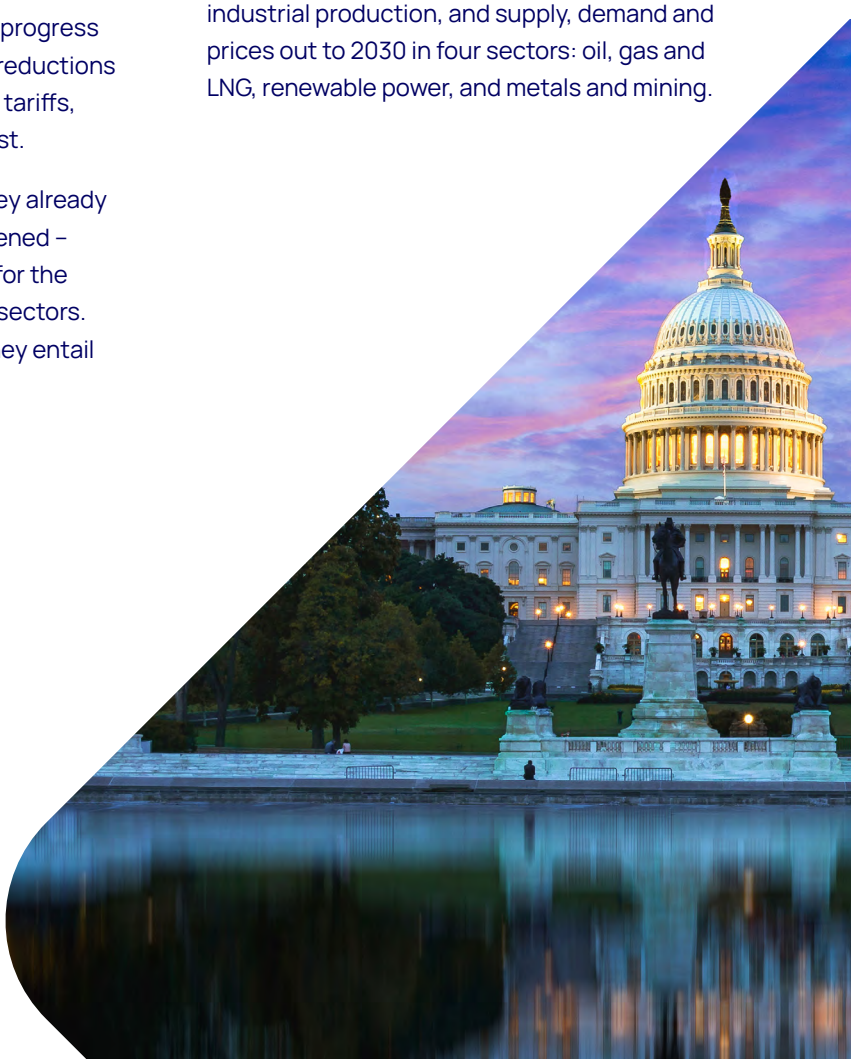
The Trump administration's 'Liberation Day' tariff announcement on 2 April was arguably the most pivotal moment for the world economy since China's 2001 entry into the World Trade Organization. While the latter turbo-charged growth in global trade, the sweeping US tariffs – and ensuing retaliation by numerous countries – threaten to upend established trading relationships and accelerate the retreat in globalisation that has been underway since the 2008 financial crisis.

The White House's numerous tariff-policy adjustments since early April have made understanding the impact and implications of the levies harder still. The potential for trade deals with major trading partners, further policy changes and even a full U-turn in the US position add to the uncertainty. At the time of writing, the US and China had announced temporary reductions in their bilateral tariffs, following progress in trade talks. However, those reductions were but a "pause" in elevated tariffs, set to last only until mid-August.

The scale of the tariffs – be they already implemented or merely threatened – has far-reaching implications for the energy and natural resources sectors. The lower economic growth they entail will curb commodity demand, prices and investment, while higher import prices will raise costs in sectors from battery storage to liquefied natural gas (LNG).

Such uncertain times require planning for divergent outcomes. Wood Mackenzie has developed three distinct scenarios that consider the potential impacts on global GDP, industrial production, and supply, demand and prices out to 2030 in four sectors: oil, gas and LNG, renewable power, and metals and mining.



Three scenarios for the global economy and trade

Trade truce – low tariffs

Our most optimistic scenario, a trade truce, assumes a reversal of the current US tariff policy, with trade barriers quickly returning to 2024 levels. Amid better trade deals and rising global exports as a share of GDP, globalisation enjoys something of an unlikely renaissance. In this scenario, the world economy continues to grow, by an average 2.7% a year to 2030.

Trade tensions – 10% tariffs

Our second scenario, trade tensions, currently looks like the most probable outcome. Global tariff barriers increase, but an all-out trade war is avoided. The US effective average tariff rate rises from 2.3% in 2024 to 10% in 2026-2030. Supply-chain relocation adds to trade friction, but is manageable. The near-term economic impact is felt most noticeably in the US, Europe and China, though all remain in positive economic growth territory, despite global GDP growth being 1.1 percentage points lower than in our trade truce scenario by 2030.

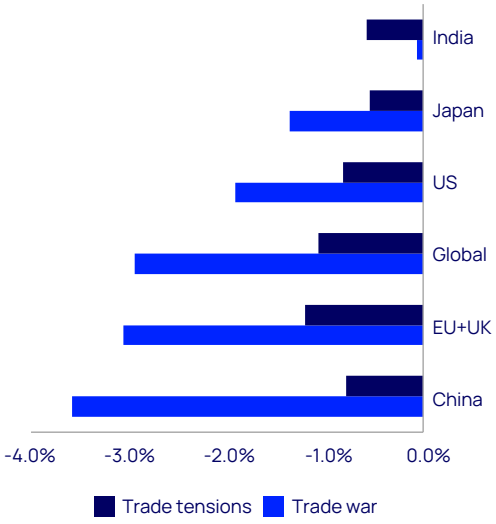
Trade war – 30%-plus tariffs

Under our trade war scenario, the US implements the tariffs announced on 2 April in full, with trading partners retaliating. The US effective tariff rate quickly exceeds 30%. This causes maximal supply-chain disruption, including US-China decoupling, triggering a global recession. In this scenario, global GDP is 2.9% lower by 2030.

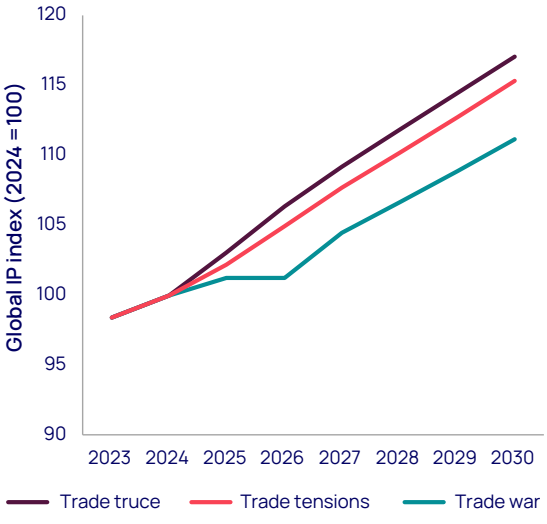
A trade war between the US and China is acutely damaging to both economies in the short term. By 2030, US resilience may limit its losses, although China's weak domestic drivers compound the loss of exports to the US and reduced global demand. The trade war's ripple effects expose economic vulnerabilities beyond the epicentre, including the EU and UK.

Figure 1:
GDP and industrial production under tariff scenarios

GDP level difference versus trade truce scenario, 2030



Global industrial production



Source: Wood Mackenzie

Impact of tariff scenarios on key sectors

Oil

Trade truce	Demand and prices in line with the pre-tariff base case
Trade tensions	Prices fall as demand weakens; small drop in US liquids production
Trade war	Brent averages US$50/bbl in 2026; significant impact on supply

In the **trade truce** scenario, global oil demand continues to grow steadily, boosted by stronger economic growth. Demand increases by 4.4 million barrels per day (b/d) from 2024 to 108 million b/d in 2030, broadly in line with our pre-tariff base case.

Meanwhile, global liquids production capacity rises 7.5 million b/d to 117 million b/d in 2030. OPEC accounts for a sizeable share of the increase, with natural gas liquids a key driver of growth. Prices in the low- to mid-US$70/bbl annual average range in real terms support US Lower 48 production as a core driver of non-OPEC growth. By 2030, Brent is projected to average US$74/bbl.

In this scenario, currently low refining margins are the sectoral trough. With oil demand growth outpacing capacity additions beyond H2 2026, refining margins recover before plateauing in the late 2020s. The global composite gross refining margin reaches almost US$10/bbl in 2030, up almost US$4/bbl from 2025 levels.

In the **trade tensions** scenario, the pace of oil demand growth is slower, but not dramatically so. Global demand still rises by 3.5 million b/d by 2030, almost 1 million b/d less than in the trade truce scenario. Slower demand growth means lower prices: Brent averages US$68/bbl in 2030 in real terms, US$6/bbl less than in the trade truce scenario.

Lower prices curtail drilling and completion activity in the US Lower 48, reducing a key source of non-OPEC supply growth.

Global refinery utilisation still improves in this scenario, but at a slower pace, with 2026 likely to be the low point in refining margins. From 2026, global composite gross refining margins recover more slowly, increasing from 2025 levels by only US$3/bbl.

The **trade war** scenario is the most economically destructive, cutting oil demand growth sharply. A world recession leads to an outright fall in global oil consumption in 2026. Demand growth resumes from 2027, but overall demand by 2030 is still 2.5 million b/d lower than under the trade truce scenario.

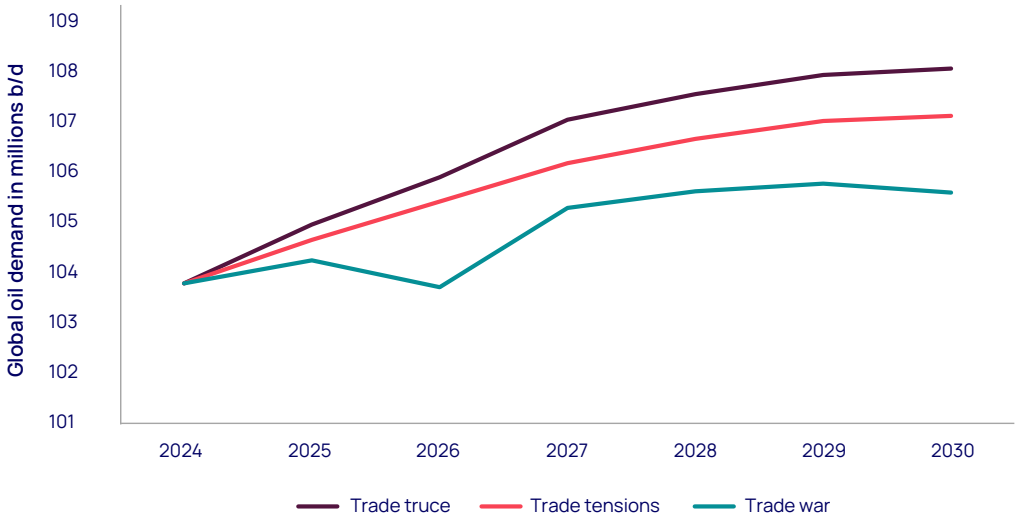
Weaker demand leads to a plunge in prices as supply significantly surpasses global demand. We project Brent crude to average US$50/bbl in 2026, recovering somewhat after 2026 as the price shock helps stabilise the supply and demand balance. Oil prices are still expected to be weak by the end of the decade in this scenario, with Brent projected to average US$63/bbl in real terms in 2030. That is US$11/bbl lower than under the trade truce scenario.

Oil at US$50/bbl is a gamechanger. Wood Mackenzie analysis shows that the economics of Lower 48 drilling won't support production growth with crude at US$50/bbl, despite corporate ambitions to keep pushing down breakevens. In the trade war scenario, we would expect a reduction in investment, leading to lower US oil production through to 2030. Supply growth outside the US would also be affected by low prices due to reduced budgets for upstream projects, with delays expected in projects not yet under development.

The trade war scenario is the most economically destructive, cutting oil demand growth sharply

A significant fall in oil demand in 2026 results in the global composite gross refining margins collapsing to breakeven levels. Global refining margins remain broadly flat at US$1 to US$2/bbl below current levels until the end of this decade, creating pressure for the rationalisation of weaker sites, particularly in Europe.

Figure 2:
Global oil demand by tariff scenario



Source: Wood Mackenzie

Gas and LNG

Trade truce	Global LNG market remains tight in 2025; risk of oversupply from 2027
Trade tensions	Accelerated rebalancing of the global LNG market at lower prices
Trade war	LNG demand hit hard; prices drop close to US$7.5/mmbtu by 2027

Under the **trade truce** scenario, with trade barriers returning to 2024 levels, the global LNG market remains tight in 2025, despite weak Asian LNG demand. Europe needs to rebuild storage after a cold winter, while facing the loss of further Russian supply following the end of the Ukraine transit agreement. But the anticipated oversupply emerging from 2027 remains inevitable, even if tariffs are removed. With a major expansion of LNG supply already under construction and more supply expected to reach final investment decision (FID) in the coming years, LNG supply is set to increase by 175 Mt by 2030, more than 40% higher than current levels. Asian LNG demand will enter a new phase of growth, increasing by 120 Mt by 2030, but Europe will need to absorb more LNG than required, pushing average prices down from US$11.2/mmbtu in 2024 to around US$7.2/mmbtu by 2030.

In the US, however, upward pressure on prices increases from a combination of LNG export growth and increased power demand from data centres. Henry Hub prices increase above US$4.5/mmbtu by 2030 from US$2.4/mmbtu in 2024.

The trade tensions scenario has a more modest impact on LNG than on oil

The **trade tensions** scenario has a more modest impact on LNG than on oil. Weaker trade flows and economic growth slows gas demand growth in Asia compared with the trade truce scenario, accelerating the rebalancing of the global LNG market at lower prices.

We would not expect these effects to be very large, given inelastic heating demand and continued growth in industrial production. We project gas demand to be about 10 bcm (7.2 Mt) per year lower across Europe and Asia than under the trade truce scenario. This results in modestly weaker LNG prices, reaching US$6.9/mmbtu by 2030. In the US, the trade tensions scenario does little to derail LNG growth, keeping Henry Hub prices high.

The **trade war** scenario hits LNG demand hard amid greater market oversupply. Chinese LNG demand falls sharply, while tariffs force buyers to redirect US LNG cargoes. Sluggish demand in Asia means more excess LNG supply is absorbed in Europe, where economic stagnation limits gas use. Prices could drop close to US$7.5/mmbtu by 2027.

In the US, LNG exporters face a squeeze on margins. US gas prices remain resilient in this scenario, despite a downturn in the economy, as falling oil prices reduce US associated gas production, requiring the production of additional higher-breakeven dry gas.

The trade war scenario hits LNG demand hard amid greater market oversupply

We project Henry Hub gas to still trade near US$4.5/mmbtu by 2030. US LNG offtakers are likely to cancel some cargoes, as the margins to global prices shrink.

The period of severe global oversupply of LNG could be prolonged beyond 2030 if momentum behind project FIDs persists into 2026. China has signed 17 mmtpa of firm contracts with US LNG projects, but high retaliatory tariffs would shut that gas out of the Chinese market.

Figure 3:
Asian LNG demand by tariff scenario

Source: Wood Mackenzie

Power

Trade truce	Import costs in the US fall, but development slows without certainty on tariff policies
Trade tensions	Lower growth reduces electricity demand; higher costs a barrier to investment
Trade war	Significant deferral of investment; battery storage the most affected sector in the US

The impact of the three scenarios on electricity demand is uncertain. Slower economic growth under the **trade tensions** and **trade war** scenarios puts downward pressure on electricity consumption in many countries. However, other factors are continuing to boost demand, such as new data centres, policies to reshore manufacturing production, and goals for economic development, national security and emissions reduction.

Under the **trade tensions** and **trade war** scenarios, the added costs and uncertainty created by the tariffs build barriers to investment and make it more difficult to increase supply. In the US, a manufacturing renaissance has been under way, driven by policy support for industries including semiconductors and low-carbon energy. Tariffs on components and raw materials generate uncertainty over the potential to reshore more manufacturing, given the limited domestic supply of those inputs for many sectors.

In a business with a 5- to 10-year planning cycle, not knowing what a project will cost next year or the year after is extraordinarily disruptive. Anecdotally, many companies have been reporting adjustments to strategy and business plans, including deferrals of investments.

Under the **trade war** scenario, US battery storage is hardest hit among the generation technologies, as China dominates the supply chain. Renewables are generally more affected by tariff-driven cost increases than conventional technologies. However, the ability of new gas-fired projects to capture market share is constrained by rising costs and limited near-term manufacturing capacity growth.

In all scenarios, we expect development activity to slow until there is more clarity on tariff policies. Projects under construction and scheduled for completion in the near term will be minimally impacted due to significant inventory build-up.

In the **trade tensions** and **trade war** scenarios, tariffs will drive increases in the cost of electricity. Rising costs will put upward pressure on prices in power purchase agreements. Attempts at renegotiation or outright termination of existing contracts are likely.

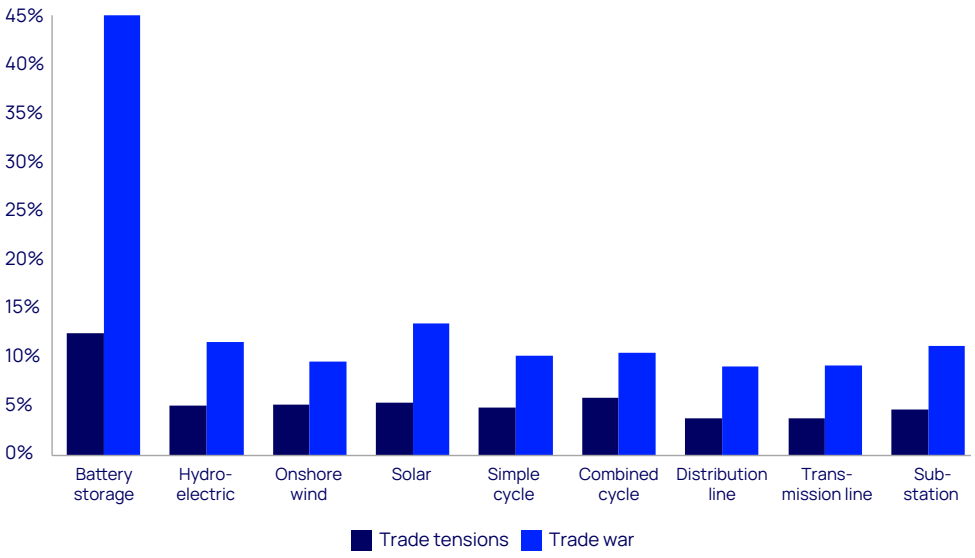
Under the trade war scenario, US battery storage is hardest hit among the generation technologies

The affordability of electricity gets even more scrutiny than today. In the **trade war** scenario, there may be an entire reset of utility investment plans through lengthy regulatory processes.

Demand growth depends on two factors – the willingness of customers to pay increasing premiums for power and infrastructure, and the ability of utilities and developers to overcome constraints.

The significant cost premium for building new renewables capacity in the US compared with other countries continues to grow as the US is deprived of low-cost generation sources. The US may also be stuck with older technologies, especially when it comes to solar panels, as the rest of the world advances at a quicker pace.

Figure 4:
Changes in US power equipment costs (vs trade truce scenario)



Source: Wood Mackenzie

Metals and mining

Trade truce	Limited impact on most metals; tariffs on steel and aluminium remain
Trade tensions	Lower growth weighs on metals demand from manufacturing
Trade war	All projected metals growth through 2026 in the trade truce scenario wiped out

In the **trade truce** scenario, the principal impacts of tariffs are on steel and aluminium, caught in the crossfire of US sections 232 and 301. Copper remains under review by the administration, but like all other metals, it has been exempted from US import tariffs. If this holds, the effect on most metals will be muted, with metals-intensive manufacturing activity remaining relatively robust.

In the **trade tensions** scenario, lower economic growth starts to weigh on metals demand from the manufacturing sector. With an effective 10% tariff rate, annual copper and aluminium demand falls by 300 kt and 1.5 Mt, respectively, compared with the trade truce scenario.

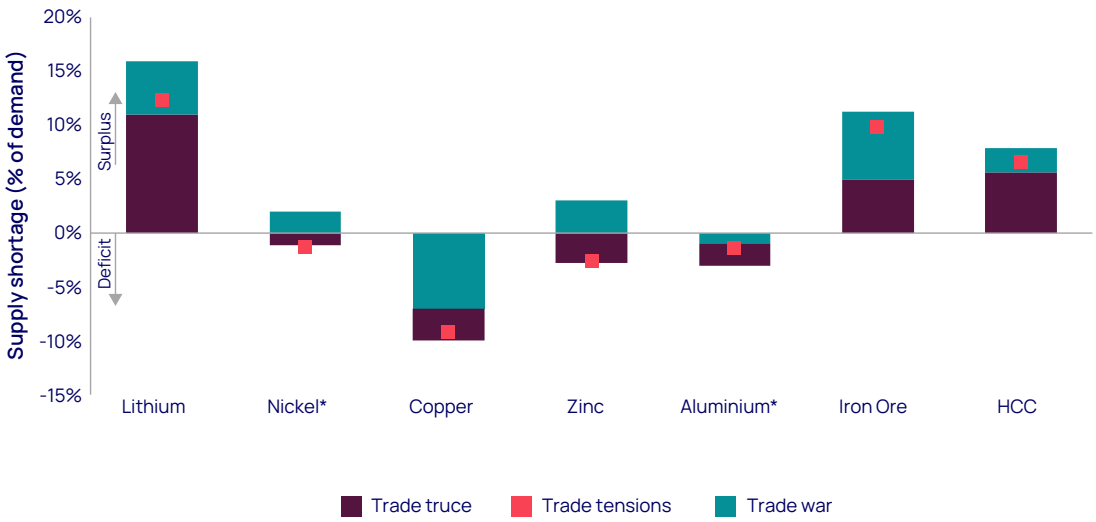
The **trade war** scenario has severe implications for metals. Aluminium demand falls almost 4 Mt in 2026, with copper down 1.2 Mt, compared with our trade truce scenario. Steel demand drops by a projected 90 Mt and lithium demand by 70 kt. All projected growth through 2026 under our trade truce scenario is wiped out in a tariff war.

China's manufacturing export sector feels some of the worst direct impacts. Exports to markets other than the US help soften the blow, but weaker global demand for Chinese exports hammers manufacturing margins. Chinese exports flooding the global market may prove damaging for competitors, including Japan and South Korea.

After 2026, recovering industrial production improves metals demand growth. There is permanent scarring, however, with demand losses still not fully recovered by 2030.

This has implications for metals supply into energy transition sectors. Concerns about under-investment in mining for low-carbon technology metals subside in the near term, but are likely to be short lived. A lower price environment encourages companies to delay bringing additional supply into production as investors sit tight. Looming supply gaps soon open again after 2030, as the mining pipeline dries up and the capital investment rates required to meet demand decline.

Figure 5: Committed primary metals supply surplus/deficit in 2030 by tariff scenario



* Refined metal

Source: Wood Mackenzie

Conclusion: planning for divergent trade outcomes

Despite the progress made in US-China talks, the threat of a global trade war remains. Such an outcome would do significant damage to the world economy, fuelling higher inflation and slower growth, likely resulting in a global recession.

Even if an all-out trade war is averted, the impacts of higher tariffs on economic growth, energy demand and production costs will be complex and far reaching.

Companies in the energy and natural resources industries are having to reckon with uncertainty over tariffs persisting for months, and probably years, to come. To succeed, they will need to be agile and resilient to a wide range of possible outcomes. Without doubt, riskier investments will be pared back and strategies that create increased flexibility will be prioritised.

Despite the progress made in US-China talks, the threat of a global trade war remains

Increased tensions over trade will be an additional obstacle to collective international action on climate change. National policies will put energy security and economic objectives first. Low-carbon technologies that require government support driven by emissions goals are likely to face more challenging conditions.

The US move to decouple from China is a particular problem for its low-carbon energy supply chains. Tariff barriers on equipment including batteries and solar cells will cement the position of the US as a high-cost location for renewable energy and storage. Other countries may see increased imports of low-cost equipment, as supply chains originating in China are diverted away from the US.

There will be some winners. President Donald Trump has urged countries to buy more US energy, including LNG, to reduce their bilateral trade surpluses. He is also encouraging countries to increase direct investment in the US to help secure more favourable terms in trade negotiations.

This is likely to mean increased investment in US LNG plants, resulting in higher global LNG supplies and higher gas demand in North America.

The net result is that we are seeing the impacts of a profound shock to the broad consensus on freer trade that has dominated international economic policymaking for decades. Whenever such a paradigm is overturned, the consequences are difficult to predict.

Such massive shifts in the global order can generate opportunity, but also bring great instability. Wood Mackenzie will be updating its integrated data and analysis regularly to support clients through the uncertainty. At this time of heightened volatility, accurate and timely information is essential.

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With thanks to:
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