

# Commodity Update

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## Silver stands on its own

### Gold

#### Price & performance:

Spot gold prices are near \$4,488 is up ~71% YTD, making 2025 the third best year on record after 1979 (up 126%) and 1974 (up 72%).

#### Drivers of 2025 rally:

A powerful confluence of fundamentals—political risk, geopolitics, tariff frictions, and mounting macro concerns—has effectively broken gold's traditional linkage to the US Dollar and US Treasuries. With global debt surging and fiscal spending becoming unrestrained in key economies, the current bull market in precious metals echoes the 1970s. Despite the stellar rise, both metals remain under owned: gold ETFs account for ~2.8% of total global ETF AUMs, while silver ETFs form a mere ~0.25%.

#### Macro & policy backdrop:

- Political polarisation is straining social fabric amid rising inequality.
- The US's fiscal deficit is ~6.1% (about \$1.9T), vs a 50 year average of 3.8%, with debt/GDP elevated, net interest payments (NIP) neared \$1-trillion in 2025 (above defence outlays), and a widening gap between revenues and outlays. Based on current trends, cumulative deficits could approach ~\$22 trillion over 2025-2035, with NIP/primary deficit rising toward ~200%.
- Despite rate cuts, long term yields are rising on fiscal and inflationary concerns and currency debasement fears. Should yields surge further, the Fed may consider yield curve control (YCC) or QE — both bullish for gold and silver.
- The US Fed is expected to cut twice/more as the labor market weakens. Chair Powell noted nonfarm payrolls may have been overstated by ~60K per month since April, implying 277,000 reported jobs could mask a net loss >200,000.
- Tariff policies and "US first" agendas have raised geopolitical fragility and economic uncertainty, prompting nations to rethink globalisation — effectively a geopolitical reset.
- Ongoing conflicts — in Ukraine, Middle East, and a US-Venezuela standoff — embed elevated risk premia in gold.
- Institutional risk is rising as political pressure on the US Fed grows. With Kevin Hassett (a vocal proponent of lower rates) floated as a potential successor to Powell, questions around Fed independence and inflation credibility intensify.
- The US Dollar Index, down ~10% YTD, faces a further downside on twin deficits and easing policy, with indications of a softer dollar to support manufacturing. China and Europe are seizing the moment to promote their currencies.

#### Positioning & flows:

- AI led equity froth and RoI concerns add to gold's appeal.
- Global gold ETF holdings of ~98.41 Moz are up ~18.7% YTD (+484t), the highest since Sep 2022. 2025 net inflows are the strongest since 2009 (644t); all time high is 111.25 Moz (15 Oct 2020).
- **Central bank reserves:** Gold's share is ~28%, a near 3 decade high, reportedly above USD reserves for the first time since 1996. Gold's share in global FX reserves has nearly tripled since the 2007-08 crisis; with gold near 75% in the 1980s, there remains ample runway for official sector buying.

#### View & target:

We stay constructive on gold with a target ~\$5,000/Oz for 2026 with an upside risk to our target .

## Silver

### Price & performance:

Silver has stepped out from gold's shadow. At **~\$72.26**, it is up **~150%** YTD, building on gold's momentum.

### Fundamentals:

Demand is powered by the green transition, AI, and emerging uses in nuclear, medical devices, and defence technologies. With industrial demand at a record high and inventories tight, investors are rotating to silver on relative value vs gold. The global gold/silver ratio spiked to ~105 after the "Liberation Day" shock in April, then collapsed to ~65 as silver caught gold rally. The market is in its fifth consecutive deficit year, with a deficit projected for 2026.

### Flows & positioning:

- Silver ETF holdings of ~852.22 Moz are up ~19% YTD, the highest since June 2022.
- Net inflows of ~4,237 tonnes YTD are the strongest since 2020 (8,802t), and ETF holdings could surpass the 2021 peak (~1.02B oz).

### Policy tailwinds:

Stimulus in Germany, China, and the US should reinforce demand.

### View & target:

We maintain a positive stance and expect silver to reach **~\$85-95** in 2026. Given that ~70% of silver demand is industrial, near term price action may be volatile — sensitive to monetary policy, broader market corrections, and macro shifts.

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