

Commodity Digest for

2025



Commodities Outlook – 2025

January 07, 2025

Sticky US inflation, Trump's tariffs & growth agenda mean fewer rate cuts

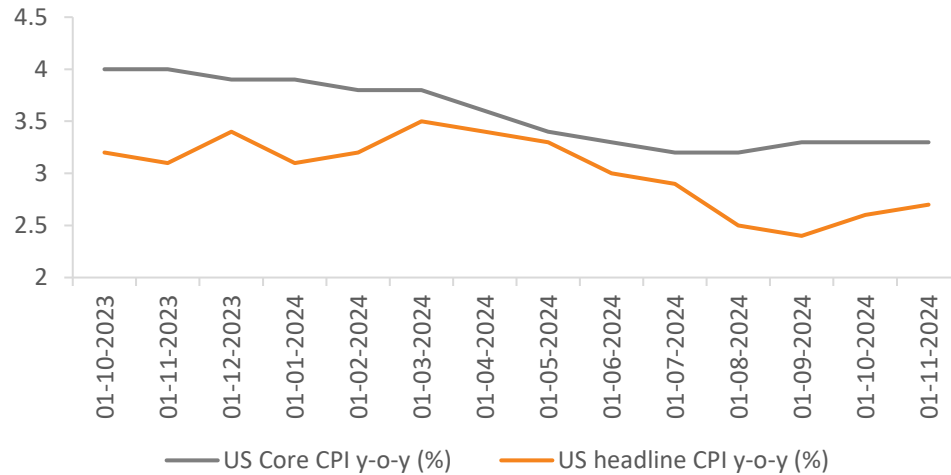
Annual Return 2024				
Exchange	Commodity	2023	2024	Return
Base metals				
LMEX	LMEX	3779.4	3905	3.3%
LME	Zinc (\$)	2669	2978	11.6%
LME	Aluminium (\$)	2392	2551	6.6%
LME	Copper (\$)	8566	8768	2.4%
LME	Lead (\$)	2072	1952	-5.8%
MCX	Aluminium	211.7	242	14.3%
MCX	Zinc	233.25	279	19.6%
MCX	Copper	730.4	792	8.4%
MCX	Lead	182.9	177.85	-2.8%
Precious metals				
Comex	Gold (\$)	2071.8	2624	26.7%
MCX	Gold	63189	76777	21.5%
Comex	Silver (\$)	24.01	28.9	20.4%
MCX	Silver	74400	87226	17.2%
Energy				
Nymex	Natural gas (\$)	2.32	3.63	56.5%
MCX	Natural gas (Rs.)	211	310	46.9%
MCX	Crude Oil (Rs.)	5998	6173	2.9%
Nymex	Crude Oil (\$)	71.65	71.72	0.1%

Macro-economic factors

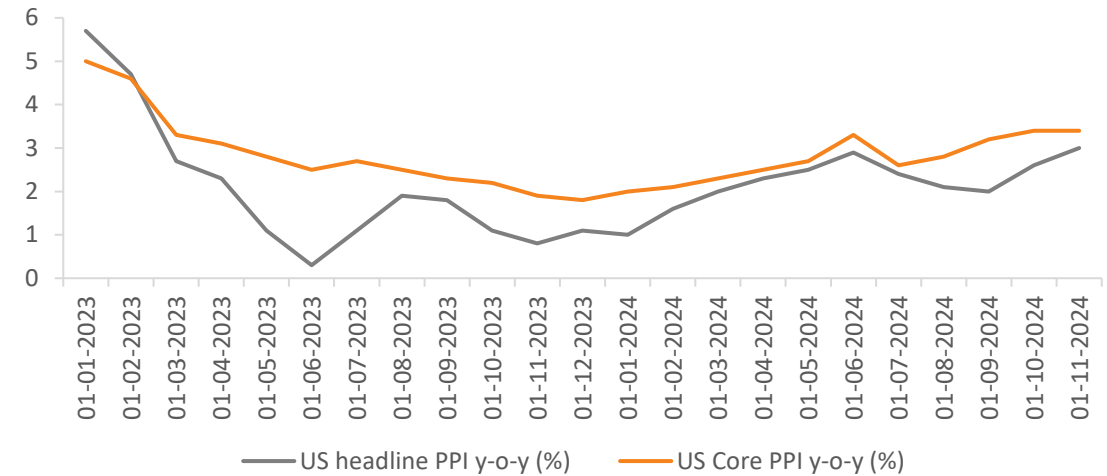
Sticky US inflation and healthy job market mean fewer rate cuts

Annual core PCE inflation stood at 2.8% y-o-y in Nov., well-above the Fed's target of 2%

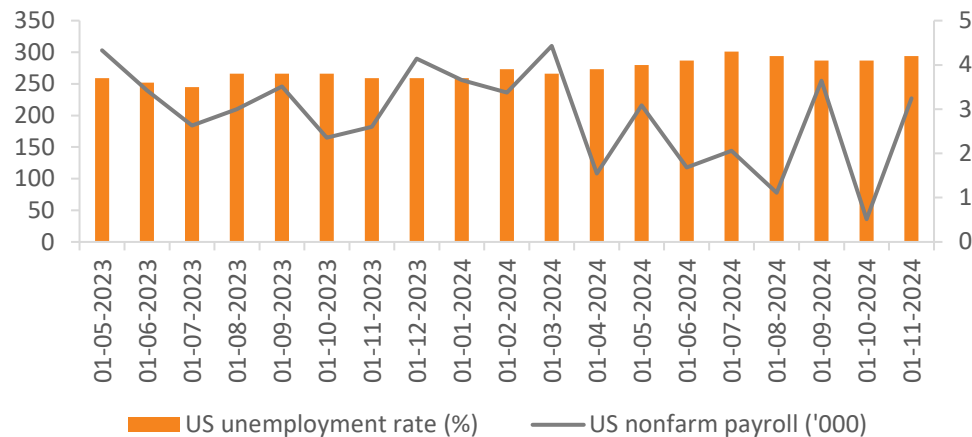
US CPI y-o-y (%) - disinflation progress stalling



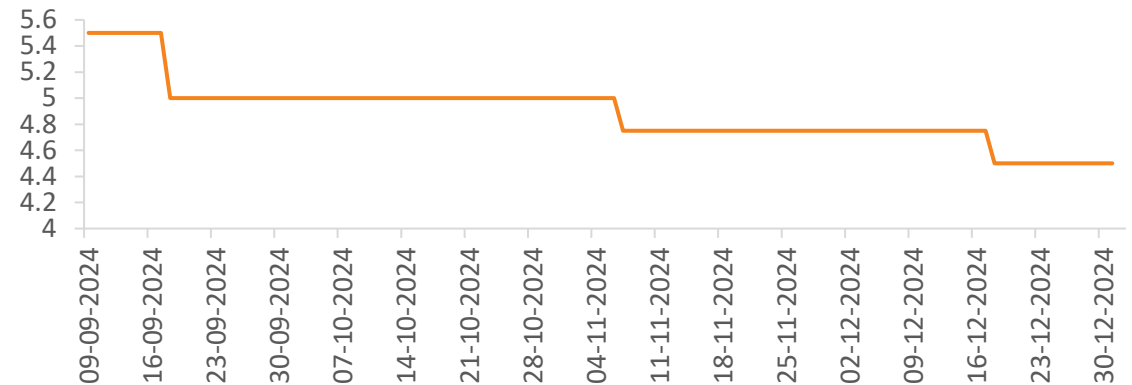
US PPI -y-o-y (%) - sticky



US Nonfarm payroll ('000) Vs unemployment rate (%) - job market still healthy



Fed Fund rate upper bound (%)



Sticky US inflation and Trump's tariffs and growth agenda mean fewer rate cuts

US 10-year yields (%) - Up around 100 bps since September 2024 low



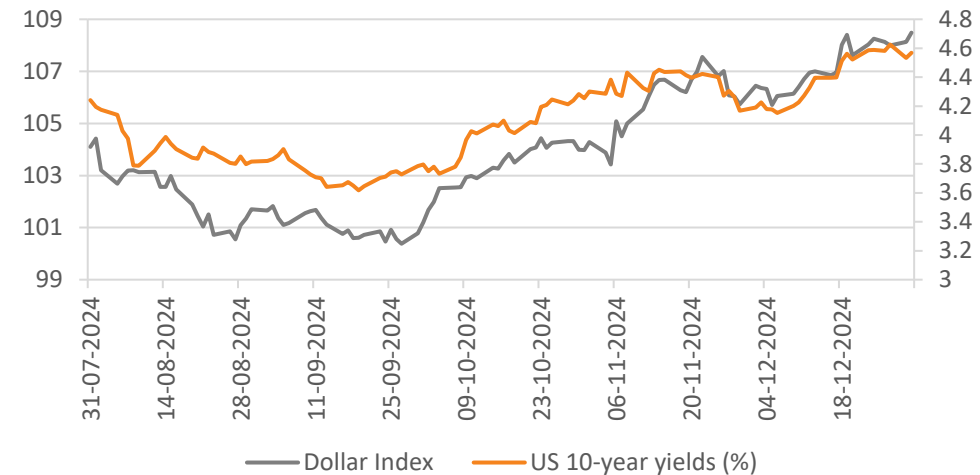
US 2-year yields (%) - Up nearly 85 bps since Sept. low



Dollar Index - Up over 9% since August low



High US yields boosting the US Dollar

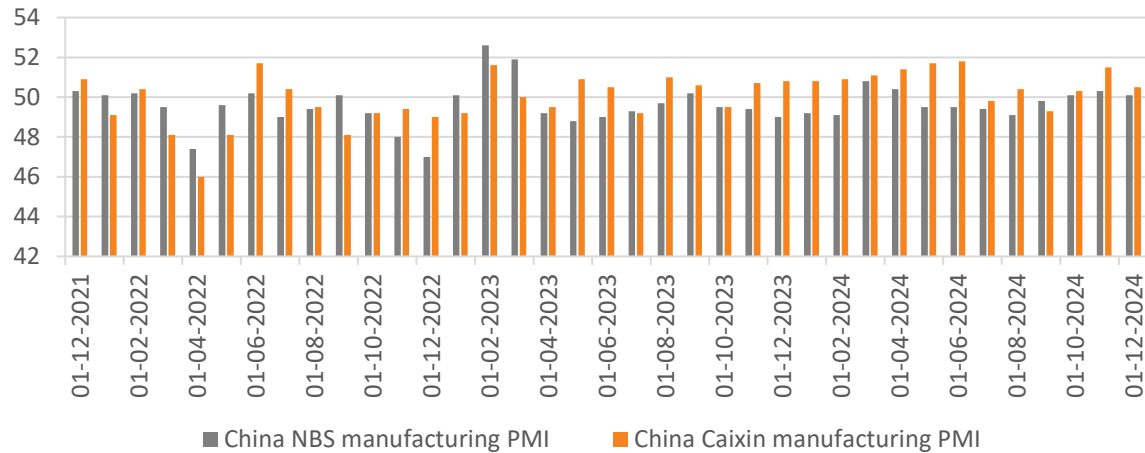


The Fed took a hawkish shift in December meeting: US factors

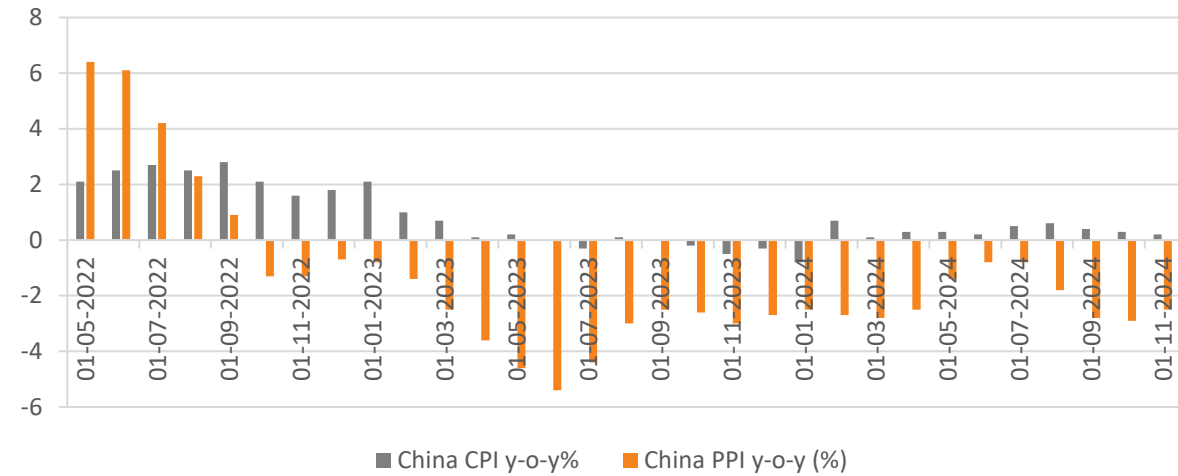
- Stalling disinflation progress in the US, healthy economy and healthy job market
- The Fed went for a hawkish rate cut in December 2024 FOMC meeting
- The Fed, in its December Summary of economic projections (SEP), sees 2 rate cuts in both 2025 and 2026 as compared with 4 rate cuts projected in its September SEP.
- As per the December SEP, the Fed sees higher GDP growth rate, lower unemployment and higher inflation in 2025 and 2026.
- The Fed's hawkish shift to put an upward pressure on the US yields and the Dollar.

China's economic concerns

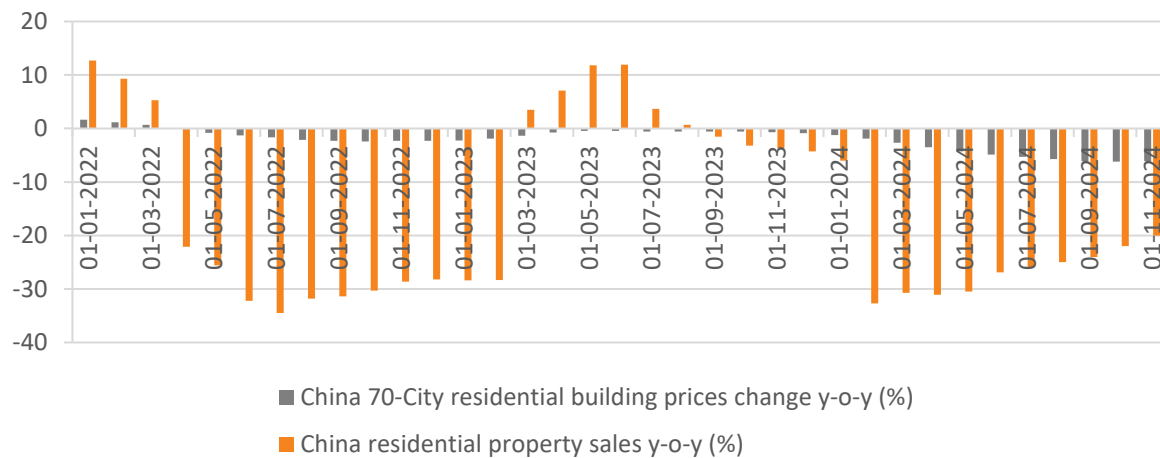
China manufacturing PMIs - barely expanding despite stimulus



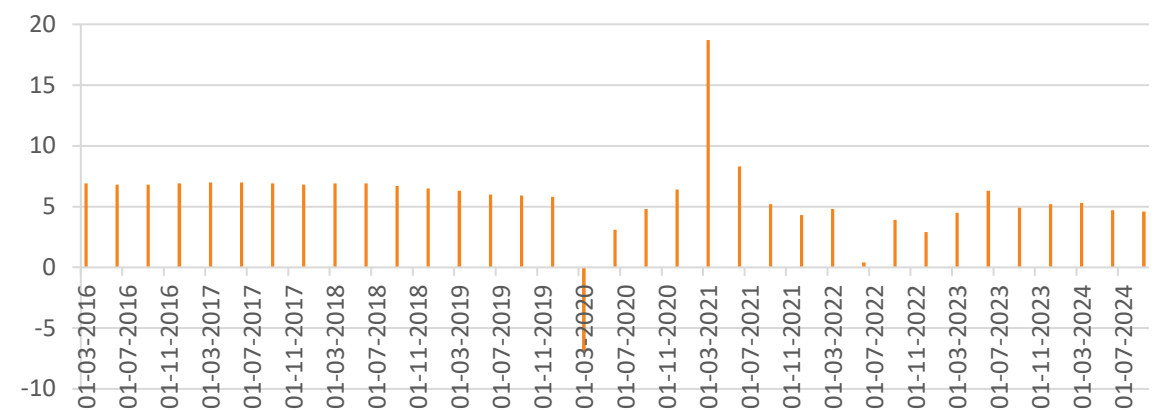
China CPI, PPI y-o-y (%) - risk of deflation



China's real estate sector continues to struggle



China GDP quarterly y-o-y (%): 5% GDP goal may be elusive



Precious metals: US monetary policy, geopolitical issues: crucial factors for precious metals

WHYs and HOWs of investing in Gold

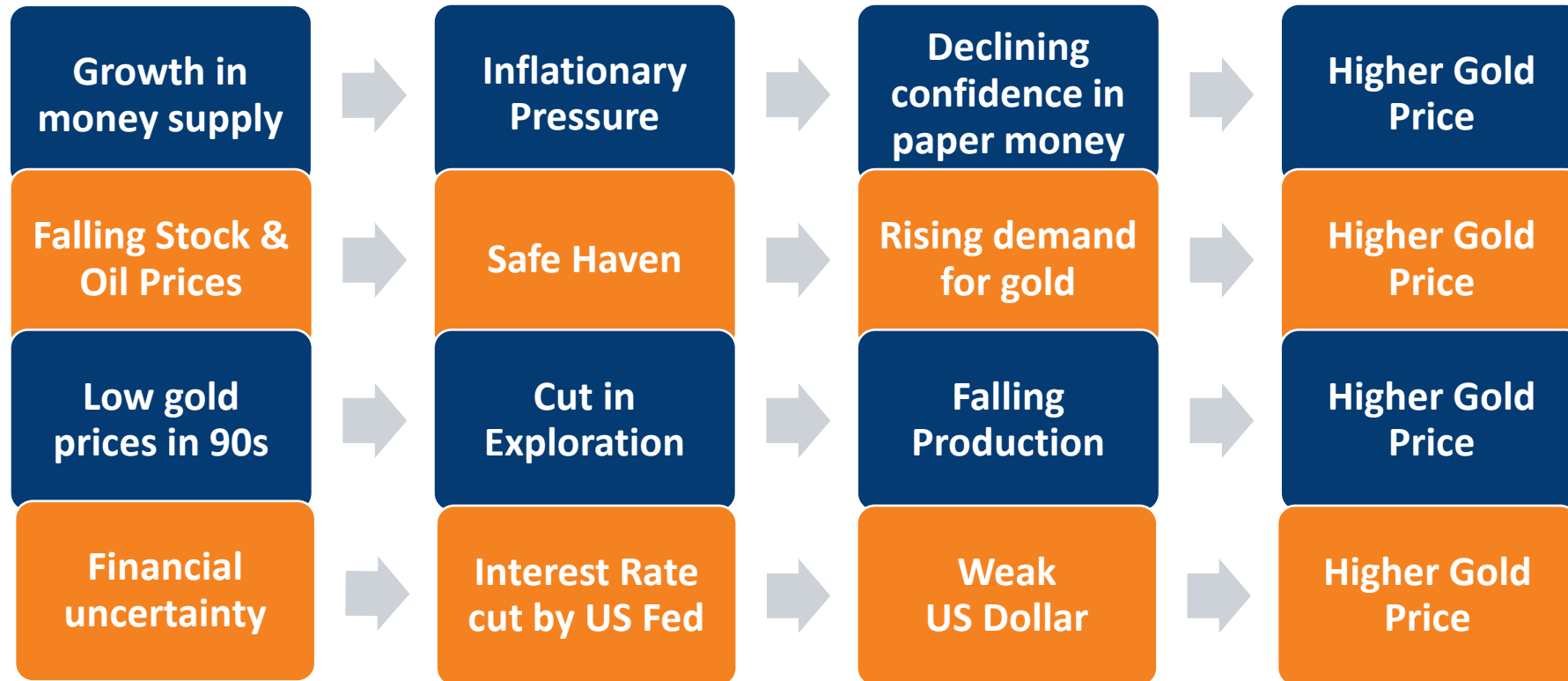
WHYs

Historical Stability
Hedge against Inflation
Helps Balance Currency
Devaluation
Cultural Significance
Global Acceptance

HOWs

Online Gold (MCX F&O)
Gold ETFs (Exchange Traded
Funds)
Gold Schemes
Digital Gold
Investment in Physical Gold

Factors Influencing Gold prices



Source: Sharekhan Research

Gold – Key bullish factors

- Central Bank buying gold to diversify their reserves, reduce their dependence on the US Dollar. *De-dollarization drive.*
- Geopolitical tensions: Middle-East, Russia-Ukraine, Sino-US, North Korea, China-Taiwan
- concerns over the fiscal health of key economies also boosting gold prices.
- Elevated Debt/GDP ratio in major economies, globally.
- Rate cuts in the key economies like the US, UK, and Euro-zone supporting gold
- A hedge against currency weakness
- Concerns about Chinese economy, Trump's tariffs

Gold – Trends and facts

- Global central bank buying: Key factor that drove up gold prices to all-time high of \$2790 (spot) in October.
- Total global gold demand increased 5% year-on-year to 1,313 tons in Q3 2024, marking the strongest Q3 ever.
- Demand value in 2024 touched the figure of \$100 billion for the first time ever.
- Global Central banks (GCBs) added 1037 tonnes (2023), 1082 tonnes (2022).
- Global Central Banks have bought 693 tons in 2024 through Q3.
- GCBs added 305 tonnes in Q1 2024 (strongest first quarter).
- GCBs bought 60 tons in October, the highest monthly quantum in 2024.
- China's PBoC bought 5 tons of gold in November, ending a six-month pause.

Gold – Trends and facts

- RBI: has bought 72.60 tons through November 2024; 16.2 tonnes (2023); net gold purchases stood at an annual average of 42 tonnes (between 2018 and 2023).
- India imported over 800 tons of gold through November 2024; Imported 689 tons in the same period in 2023
- Turkey, India and Poland leading gold buyers YTD this year.
- Assets under management of Gold ETFs stand at \$5.2 billion in November. Up 60% y-o-y.
- Over the first 11 months of 2024, net inflows into gold ETFs amounted to US \$1265mn, a 3.7-fold increase from last year.
- Indian Rupee depreciated 38% versus the US Dollar in last 10 yrs

Gold – Risk factors

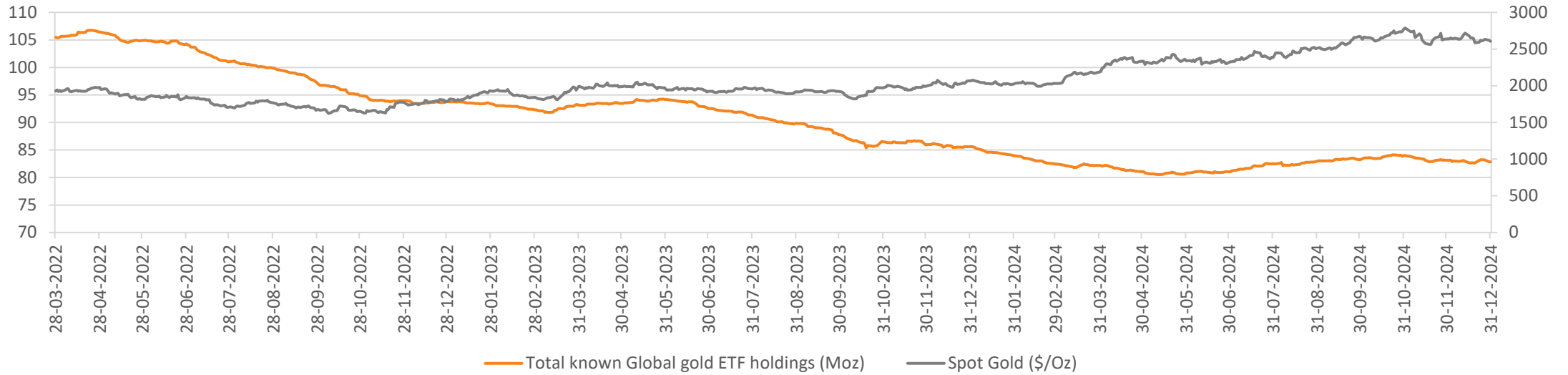
- Sticky US inflation which may prompt the US Fed to reduce the pace of rate cuts.
- US economy Soft landing narrative: lower inflation without limited job losses
- Thawing of geopolitical tensions: Trump's moves and stances being closely watched for possible breakthroughs in Middle-East and European wars.

Gold – Huge Upside in medium-to-long term

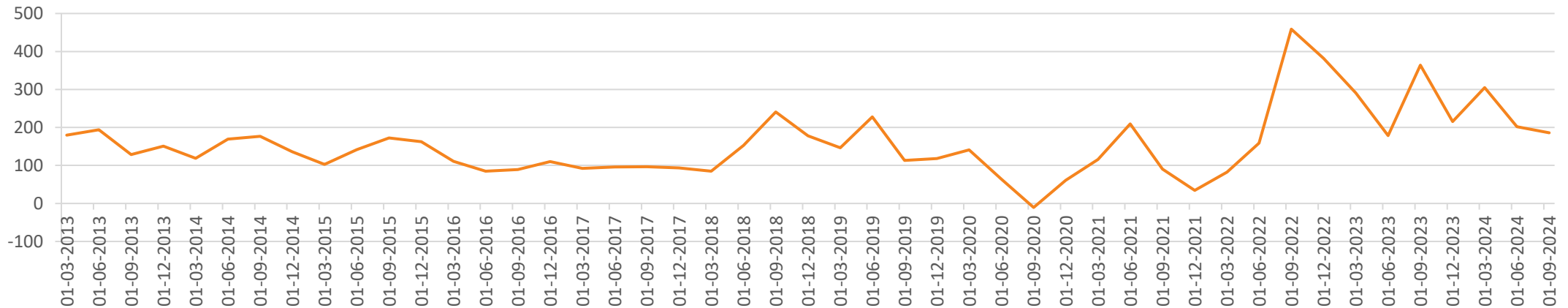
- **Geopolitical concerns:** Russia-Ukraine war, Middle East War, China-Taiwan, Sino-US, North Korea, etc. Gold ETF's have started adding gold to assets
- **Central Bank buying to continue.**
- **Other major Drivers - inflation, Debasement of fiat currencies. geopolitical factors, fiscal and debt issues, etc.**
- **Chinese economic concerns**
- **ETF flows positive**
- **Further rate cuts in 2025 and 2026**

Gold vs Gold ETFs

Gold (spot) Vs Gold ETF (Moz)



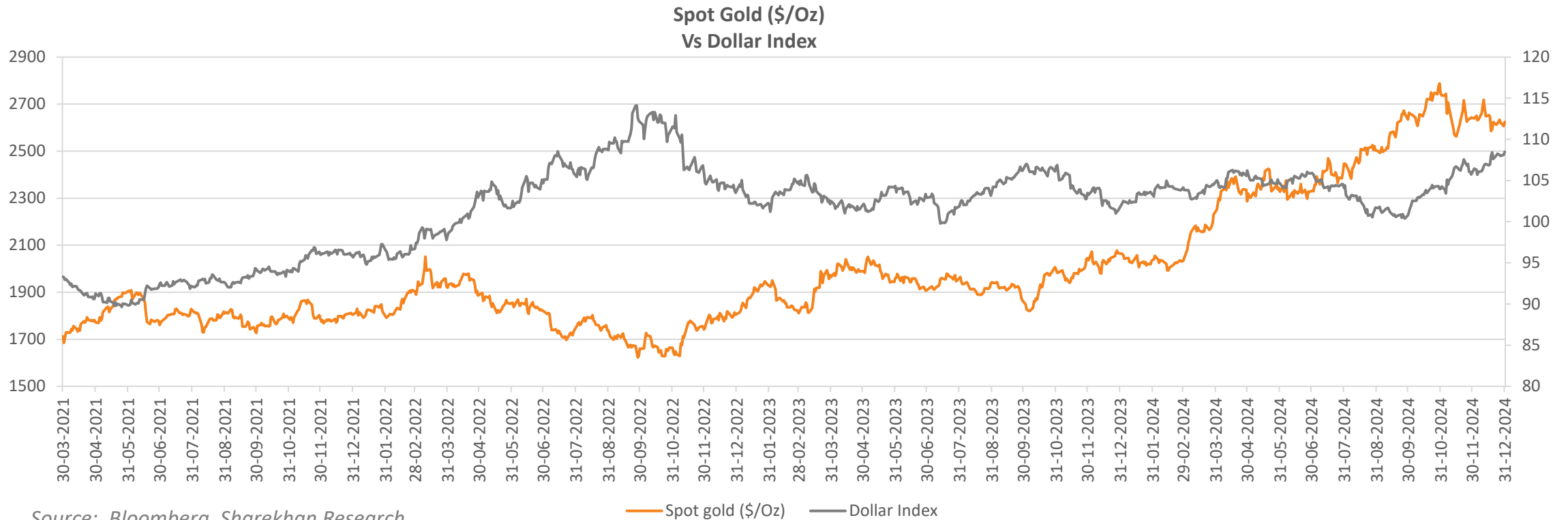
Central bank quarterly gold purchase (ton)



Central bank buying countering ETF outflows

Gold Bull Run

Commodity	CMP	Outlook for near term	Yearly Outlook
Gold	\$2646/Oz	A correction to \$2500 should be used to buy for a sustainable rally.	\$3000



Silver: Huge upside potential in 2025

Commodity	CMP	Outlook for near term	Outlook
Silver	\$30.16/Oz	A correction to \$28 should be used to accumulate for given targets.	\$35/\$50 in 6 months to one year

POSITIVES

- Global Silver industrial demand at a record high in 2024; Up by 9 % in 2024.
- Expecting 4th straight annual deficit (20%) in a row in 2024.
- A deficit of 184.3 million ounces (2023)
- Green energy usages: Solar panels, EV, nuclear energy
- Silver usages in AI
- Huge imports by India and China
- Silver Institute: demand may rise 170% by 2030.

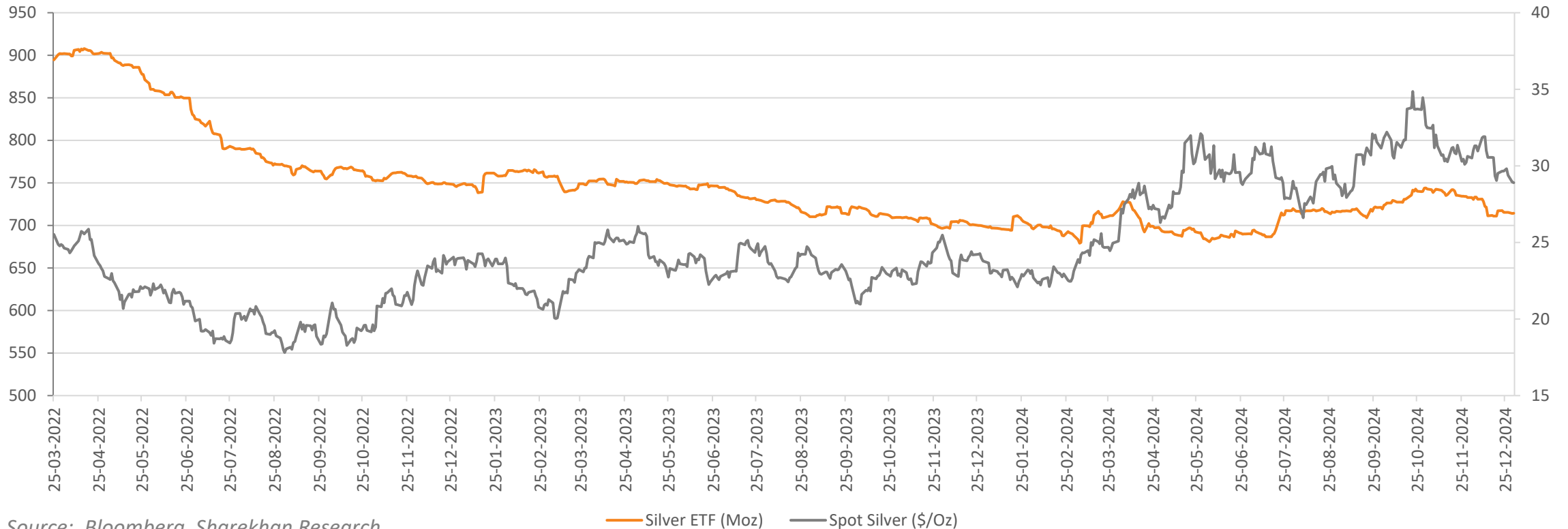
NEGATIVES

- Lacks central banks' buying support
- Concerns about Chinese economy
- Lack of fiscal stimulus in China

Silver Bull Run

Commodity	CMP	Outlook for near term	Outlook
Silver	\$29.80/Oz	A correction to \$28 should be used to buy for a sustainable rally.	\$35/\$50

Spot Silver (\$/Oz) Vs Silver ETF (MOz)



Source: Bloomberg, Sharekhan Research

Industrial commodities

January 07, 2025

Industrial commodities – downside pressure in the near-term: The Fed factor

- The Fed went for a hawkish rate cut in December 2024 FOMC meeting.
- No rate cut expected in January 2025 meeting.
- As per December meeting Summary of economic projections, the Fed sees higher GDP growth rate, lower unemployment and higher inflation in 2025 and 2026; thus, fewer rate cuts in 2025 and 2026 than projected in September.
- Upward pressure on the US yields and the Dollar.

Industrial commodities – downside pressure in the near-term: Trump's policies

- Trump to follow pro-growth agenda which may lead to larger fiscal deficit on tax cuts and will increase borrowings.
- Trump's deportation drive may add to upside pressure on wages
- Surging US yields on borrowing and inflation concerns. US Dollar Index likely to rise further.
- Trump intends to impose more than 60% tariffs on Chinese imports+25% tariffs on Mexico and Canada+ as high as 20% tariffs rest of the imports+ Threatens 27-member European Bloc with more tariffs unless Europe buys more oil and gas from the US.

Industrial commodities – downside pressure in the near-term: Weak China

- Threat of deflation
- Struggling to achieve 5% GDP growth rate
- Real Estate sector struggling
- September stimulus blitz showing mixed results.
- Local governments' finances highly leveraged.
- Trade wars with the US negative for the Chinese economy
- Chinese export engine to slowdown as the European economies struggle
- China to devalue Yuan to counter tariff impacts.
- China waiting for more clarity on the incoming Trump administration's policies.

Industrial commodities – Likely to recover after Q1 2025

- More clarity on Trump's tariff plans and other key policies.
- China to increase fiscal spending to invigorate the economy
- As conveyed by the People's Bank of China -- Monetary policy stance to be changed from 'prudent' to 'moderately loose' in 2025.
- China to run a record budget deficit of 4% of GDP in 2025, up from 3% target in 2024.
- More rate cuts in the key economies.
- US economic slowdown to lead to more rate cuts

Positives and negatives for Copper

Commodity	CMP	Outlook for near term	Outlook
Copper	\$9035	Hawkish Fed, concerns over Chinese economy, Trump's tariffs to weigh on the metal. A drop towards \$8300 should be used for building long positions.	\$12,000 in a year

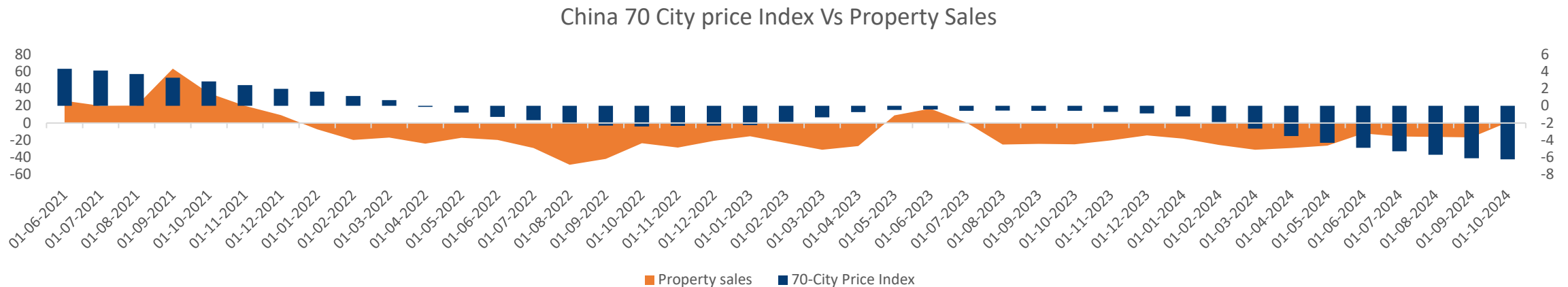
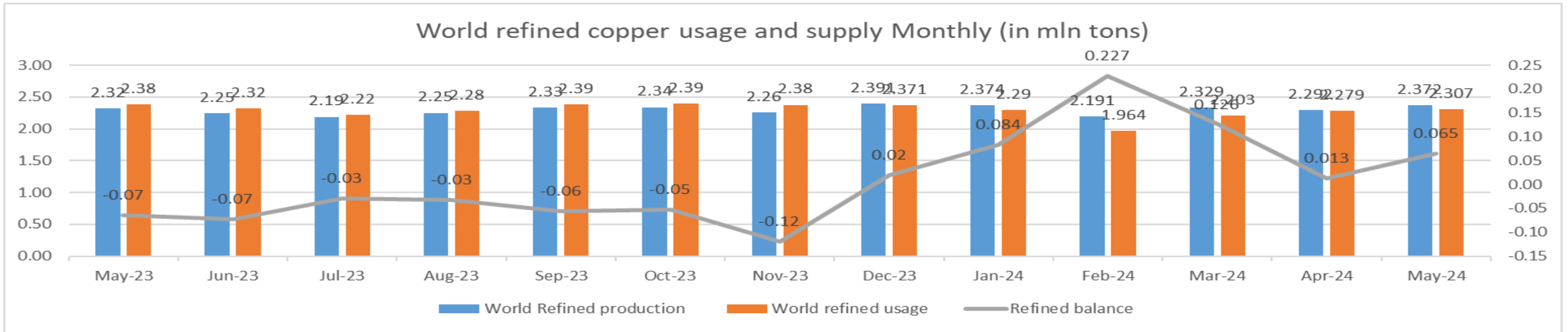
POSITIVES

- China's fiscal stimulus may support properties market.
- Green energy demand: Integral part of Evs, wind turbines and Solar panels.
- AI data stations

NEGATIVES

- Weak LME cash-to 3month spread
- Global copper market remain in surplus of 496kt in 2024.
- China' Refined copper production elevated

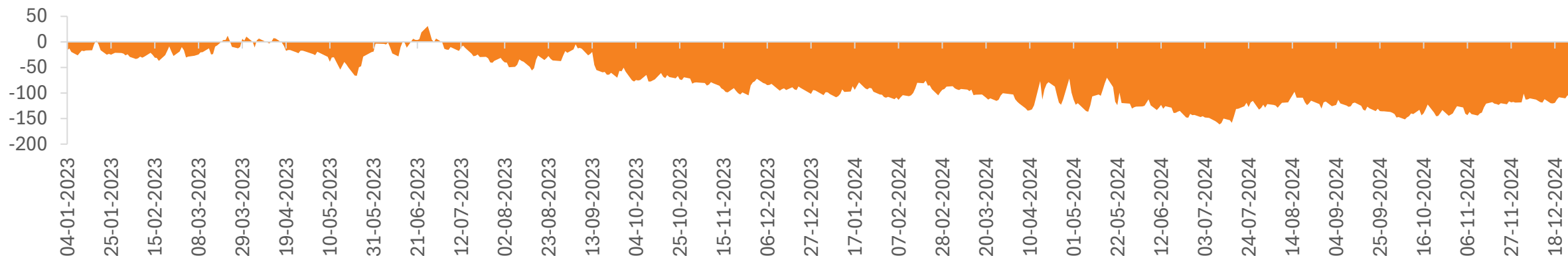
Copper – Drivers



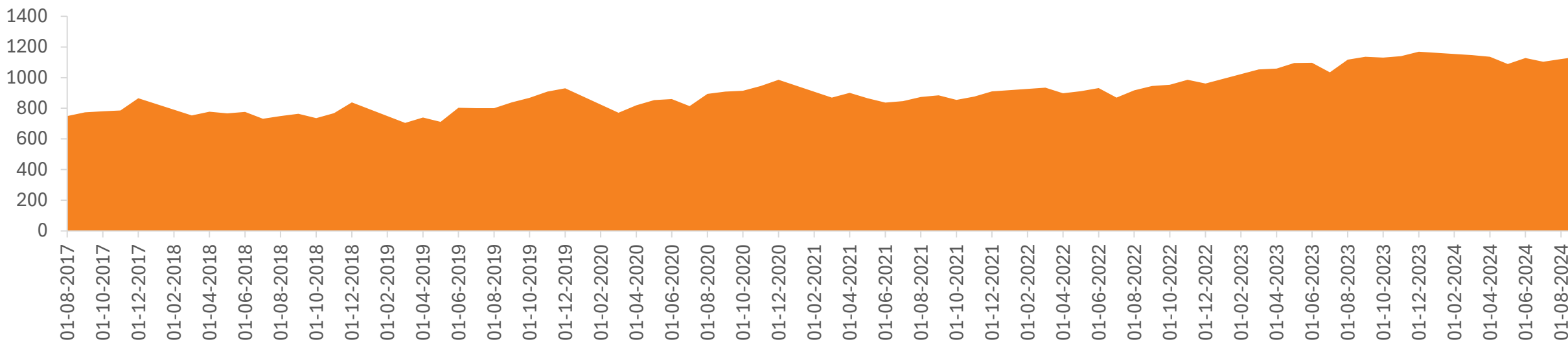
Slight improvement seen in property market following the September Stimulus measures. Still, a long way to go.

Copper – Dampeners

LME Copper cash-to-3 month spread \$/t – Deep contango



China's refined copper output m/m (kt) - Elevated



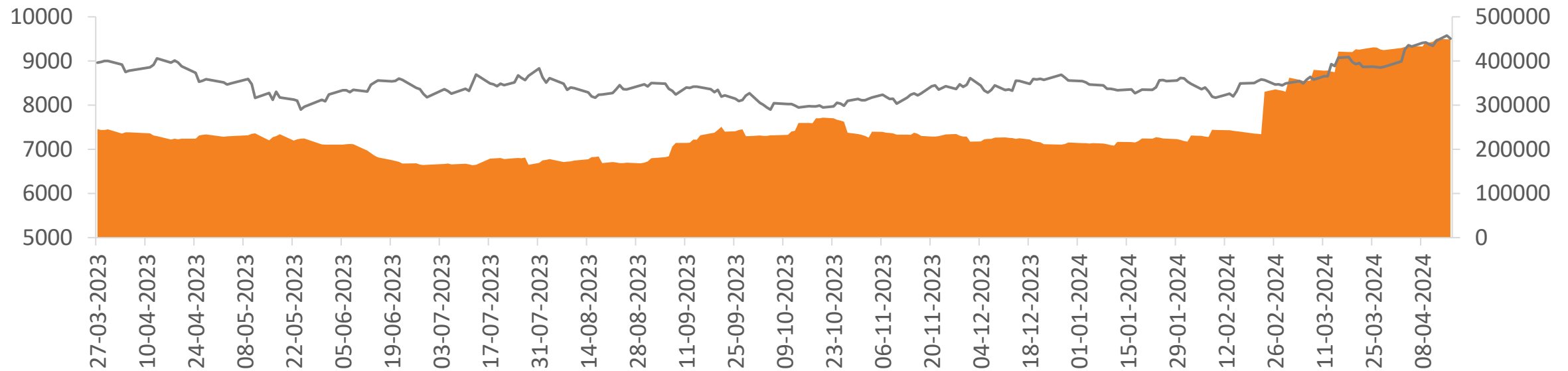
Source: Sharekhan Research , Bloomberg, ICSG

LME 3-month copper prices

Commodity	CMP	Outlook for near term	Yearly Outlook
Copper	\$9035/t	Short-term outlook bearish, long-term bullish. Use a decline to \$8500 as buying opportunity.	\$12000 in a year

LME Copper price Vs stock

Global warehouse inventories — LME Prices \$/t



Source: Bloomberg, Sharekhan Research

Positives and negatives for Aluminum

Commodity	CMP	Outlook for near term	Outlook
Aluminum	\$2508	Short-term weakness due to weakness in China's economy, hawkish Fed, trade wars Use drop to \$2400 to initiate longs.	\$3,000 in a year

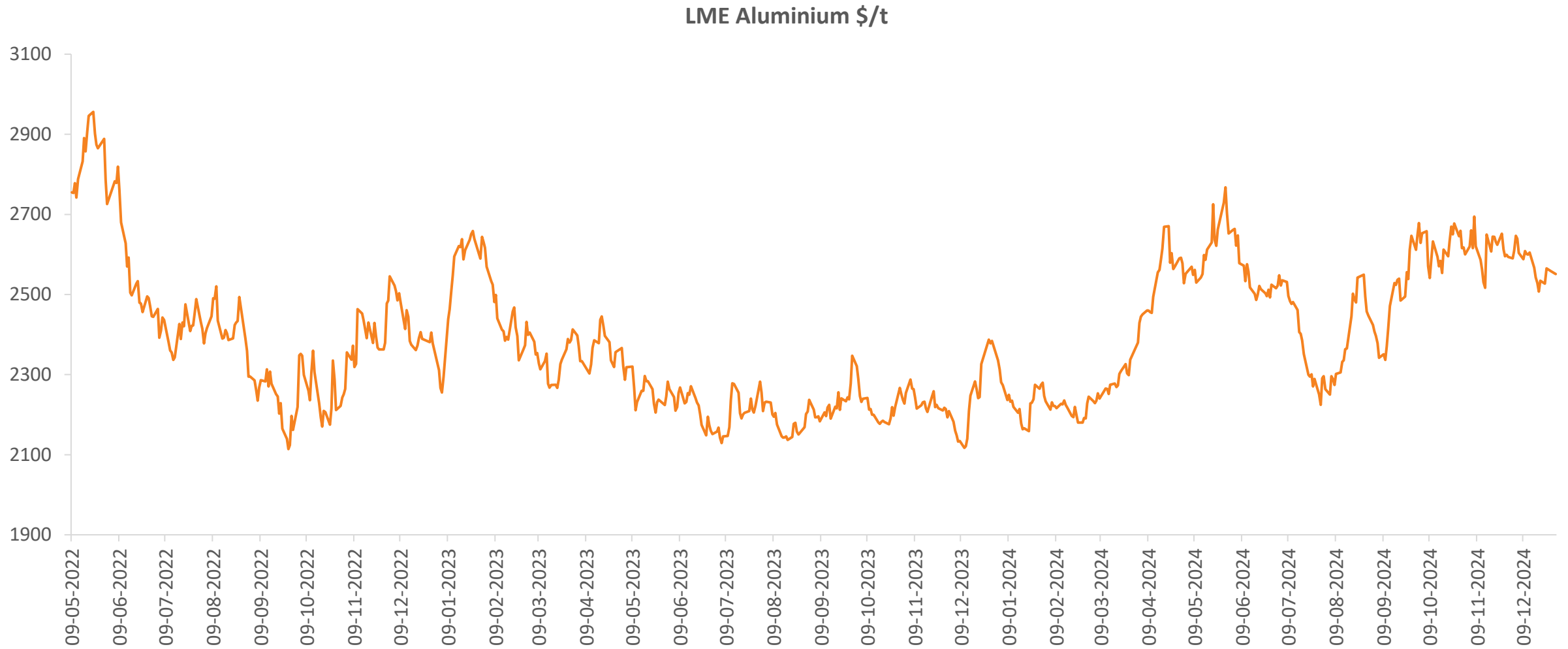
POSITIVES

- Global Aluminum market deficit 332,600 tonnes. (11 months).
- China limiting carbon emissions for smelters in 2025 – may affect aluminum production.
- Rally in Alumina prices in China.
- Aluminium suits EVs as on account of light weight & leaves a smaller carbon footprints.
- China cancelling export tax rebate

NEGATIVES

- Global aluminium output up 3.7% yoy (Jan-Nov)
- China's production of primary aluminium rose 4.6% in 11 month to its highest in almost a decade
- Recovering production capacities in China.
- Correction in oil prices
- Chinese aluminium exports up 13% y-o-y
- Alumina supply likely to improve in 2025

LME 3-month Aluminum prices



Source: Bloomberg, Sharekhan Research

Zinc – Positives & Negatives

Commodity	CMP	Outlook for near term	Long-term outlook
Zinc	\$2878	Correction to \$2700 level should be used for building long positions	\$3,500 in a year

POSITIVES

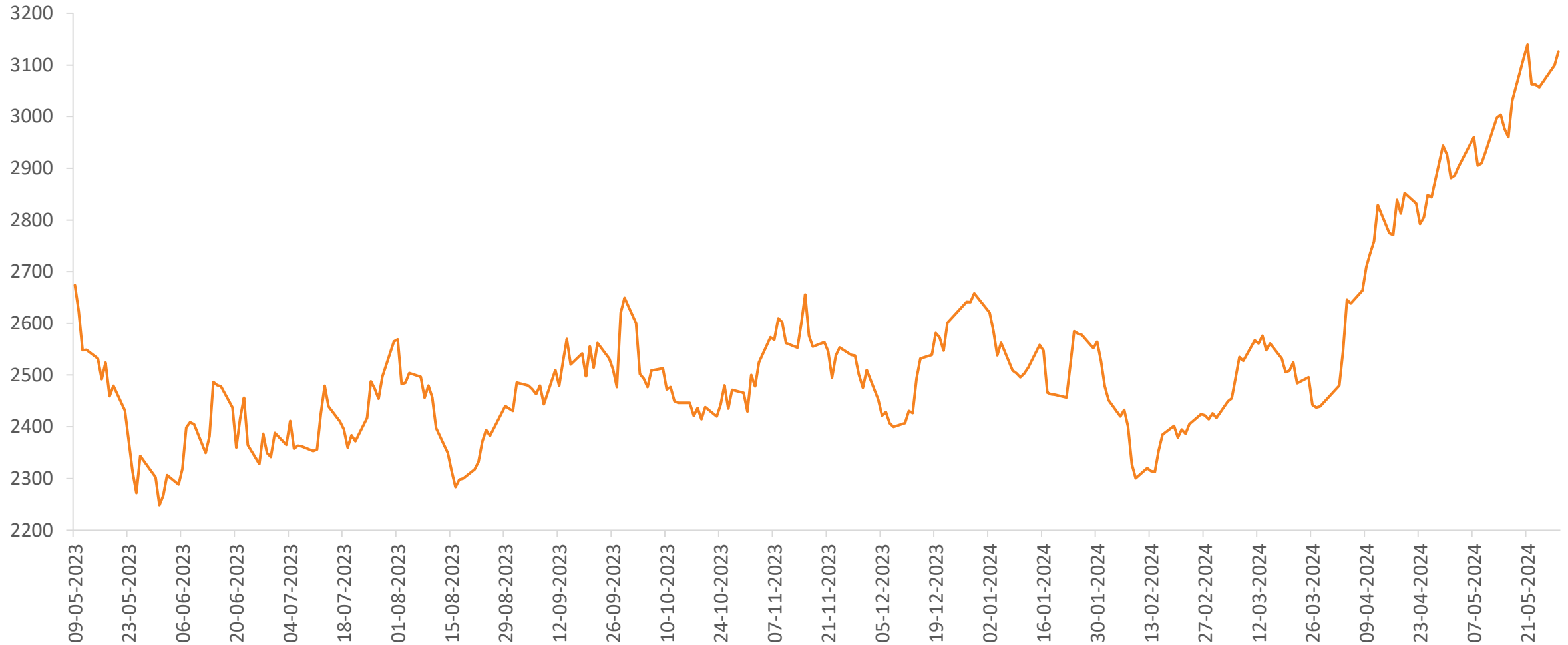
- **Smelters cutting capacity** : Chinese smelters are expected to cut down capacity citing lower demand and higher power cost
- China refined output to decline over 6% in 2024.
- Global refined market switched into deficit 69kt .
- **Global mine output declined by 3.8%**
- China's zinc concentrate imports declining. TC/RC collapsing.
- ILZSG has cut down surplus estimate for 2024 from 367,000 tonnes to 56,000 tonnes.

NEGATIVES

- Trade war could slow down China
- China's iron ore steel inventories higher
- **Weakness in Iron ore and steel prices**
- **China** – Property market concerns linger : Since March 2022 property investment and new home prices have been in decline .
- Restart of European smelters: Glencore, Nyrstar
- Supply tightness likely to ease in 2025.

LME 3-month Zinc prices

LME Zinc \$/tonne



Source: Bloomberg, Sharekhan Research

Crude Oil

POSITIVES

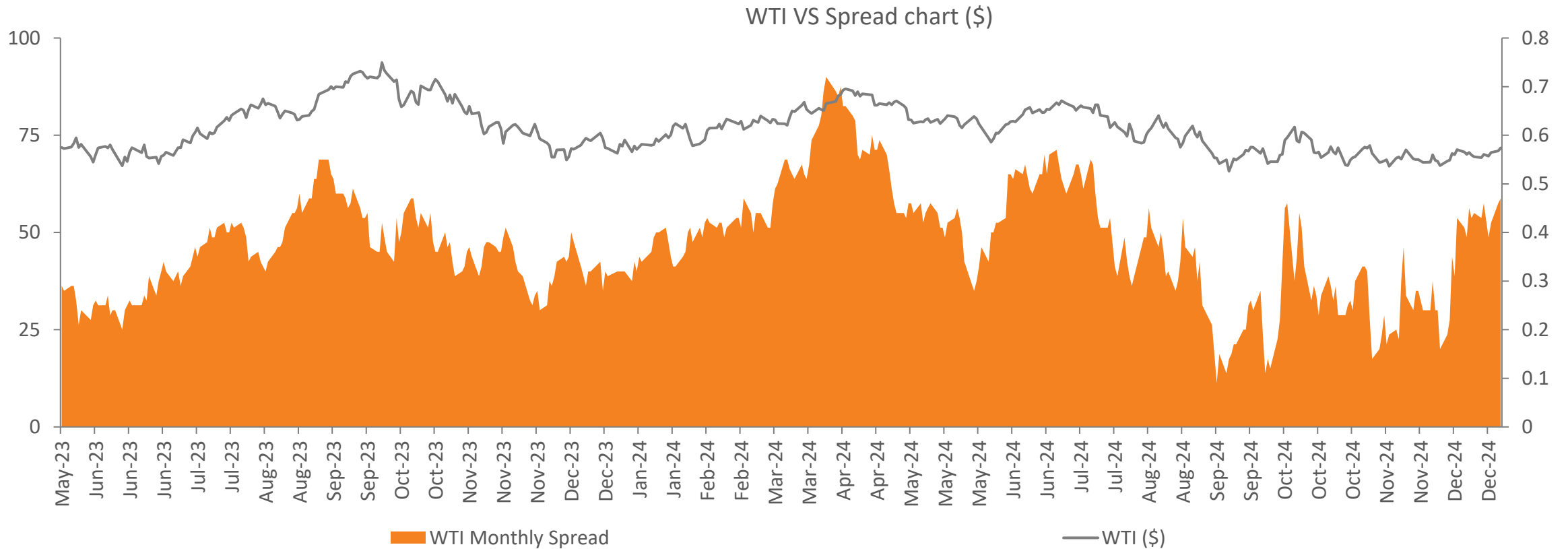
- China is expected inject generous liquidity into system in 2025
- China switched towards moderate banking policy from Prudent
- Geopolitical tensions
- OPEC+ extends production cut policy until Q1-2025
- US Crude oil inventory at around 12-month low
- US Crude oil demand rose 21.01mbpd(oct), highest since 2019
- Severe winter forecast may curtail US crude oil production in January

NEGATIVES

- Trump trade fears may slow down global expansion
- China cumulative crude oil demand contracts 3% Jan-Nov 2024.
- Non-OPEC production offsets OPEC+ production cuts
- Libya, Angola, and US output keeping market in surplus
- IEA, OPEC and EIA revised down their oil demand growth forecasts for 2025
- Global market to witness surplus of 0.5-0.7 mbpd H2-2025

WTI front-month crude oil prices

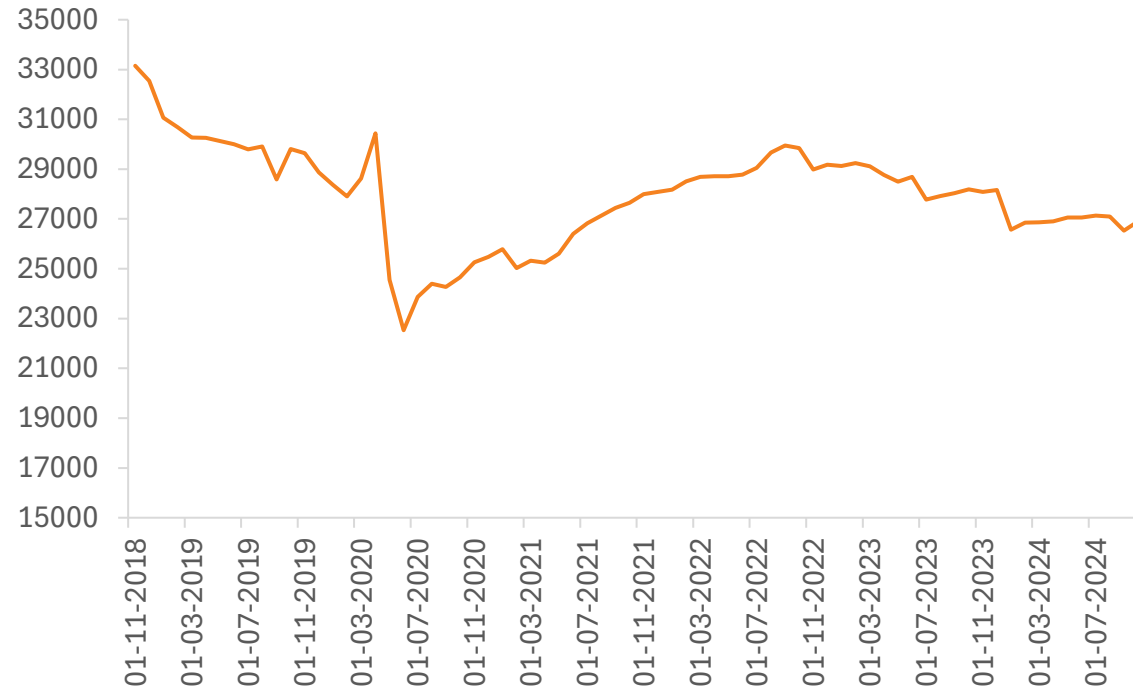
Commodity	CMP	Outlook for near term	Annual Outlook
Crude Oil	\$74	Likely to weaken until the first quarter of 2025.	\$55-\$85



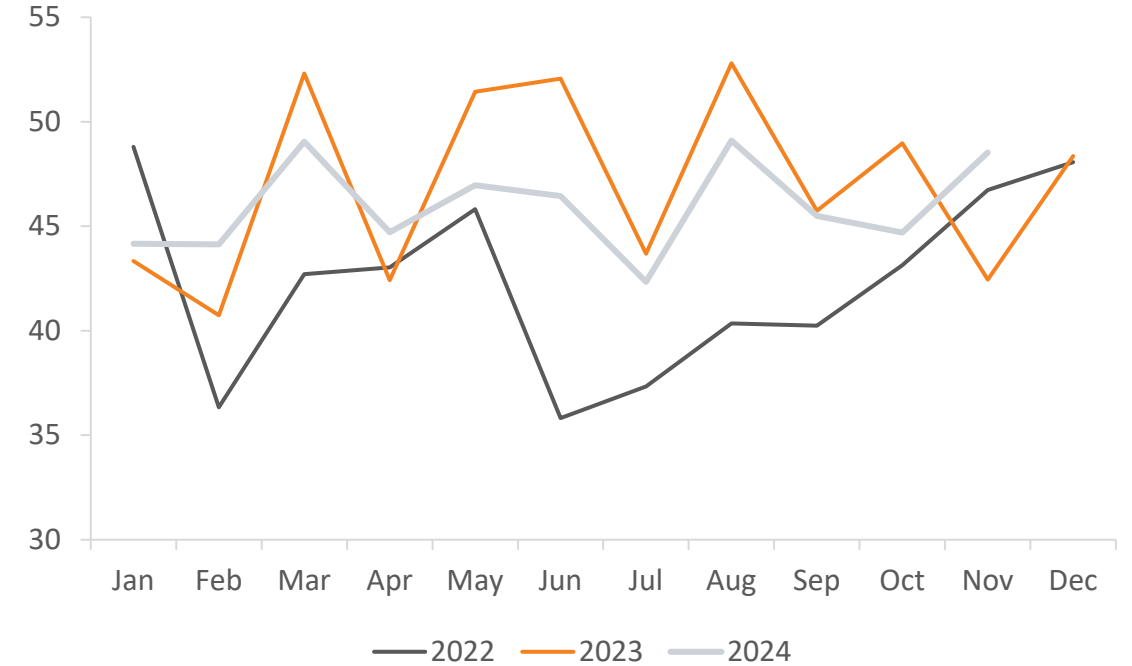
Source: Bloomberg, Sharekhan Research

Crude Oil

OPEC Production KBPD



China Crude oil imports Million tons/month



OPEC+ has got a huge buffer of over 6 MBPD
China's oil imports down in 2024

Natural Gas - Positives and Negatives

POSITIVES

- The US gas demand to rise 2% y-o-y in 2025.
- US LNG exports to rise.
- European Gas storage around 73% full. The expiry of Russia-Ukraine gas transit deal on January 1 may worsen the European storage situation in case of cold winter.
- Demand for power from AI data stations.
- Possibility of a colder than usual winter in the US and Europe.
- Inventory surplus to 5-year average has declined to 4.9% from 15% a few months ago.
- Surplus to drop to 2% by March 2025

NEGATIVES

- Weather forecast somewhat inconsistent currently.
- Warmer than usual winter would mean both Europe and the US have sufficient inventories.
- The US NG production to rise in 2025 after producers cut down production in 2024.

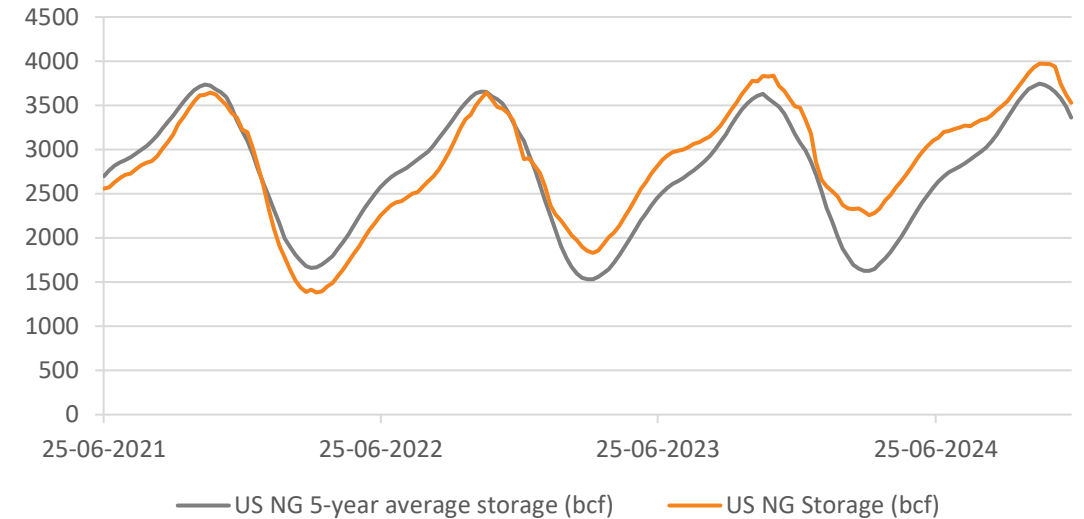
Natural Gas - Front-month (3.50 MMBtu/\$)

Commodity	CMP	Outlook for near term	Outlook
Nymex Natural Gas	\$3.53	Expectation of a cold winter in the U.S	\$4.50/MMbtu in 6 months

NG Price (\$/MMBTu)



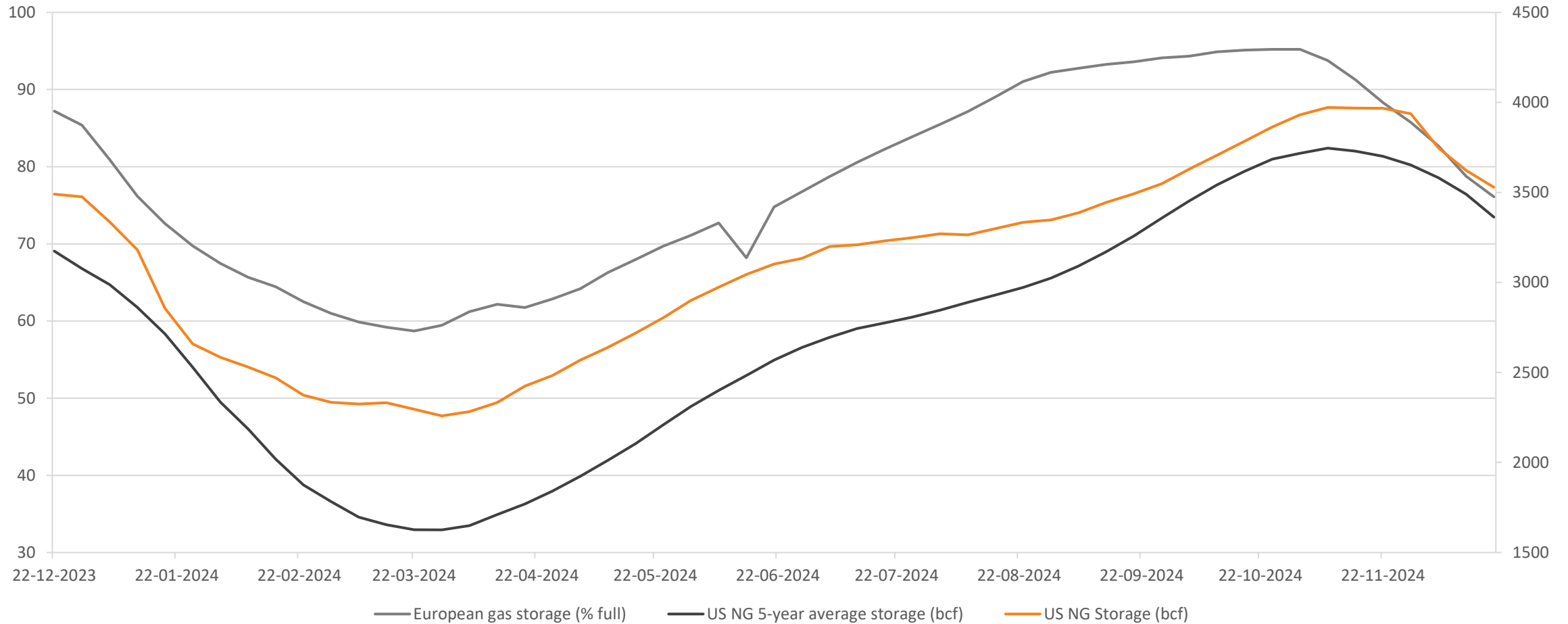
US gas storage Vs 5-year avg storage (bcf)



Source: Bloomberg, Sharekhan Research

Natural gas inventories

US gas storage (bcf) Vs European gas storage (% full)



Commodities Outlook - 2025

Commodity	CMP	Outlook for near term	Yearly Outlook
Gold	\$2657/Oz	A correction to \$2500 should be used to initiate longs.	\$3000/Oz in six months to one year.
Silver	\$29.80/Oz	A correction to \$28 possible should be used to accumulate for given targets.	\$35/Oz (six months)/\$50/Oz (in a year).
Crude	\$73/brl	Can weaken through Q1 2025	\$55-\$85/brl
Copper	\$8800/t	A correction to \$8300 should be used to accumulate for medium to long term.	\$12,000/t in a year.
Zinc	\$2900/t	A correction to \$2700 should be used for accumulating.	\$3500/t in a year.
Aluminum	\$2500/t	A decline to \$2400 should be used as a buying opportunity.	\$3000/t in a year
Nymex Natural Gas	\$3.50/MMBTu	Winter demand and reduction in surplus supportive	\$4.50/MMBTu in six months

Source: Bloomberg, Sharekhan Research

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498; **Registered Office:** The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000; **Correspondence/Administrative Office Address** - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699; **Other registrations of Sharekhan Ltd.:** SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027; **Compliance Officer:** Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com
For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.