

# Arc

## Commodity

December 11, 2025

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## US Fed goes snip, snip, snip

### Quick snapshot

- Commodities, risk assets and US treasuries rallied, as the US Federal Reserve cut its Fed Funds rate by 25 bps as expected to 3.5-3.75%; this is the third straight rate cut this year.
- The Fed raised its collective view of GDP growth for 2026, raising its September projection up by half a percentage point, to 2.3%. The Fed continues to expect inflation to hold above its 2% target until 2028. Unemployment rate is projected to ease from 4.5% end-2025 to 4.4% by 2026.
- Fed to buy \$40 billion of treasury bills over next month; purchases to begin on December 12; extent and timing of additional adjustments to be examined.
- The Fed noted that job gains have slowed and downside risks have risen, though not much change has been witnessed since the last meeting.
- The central bank inferred that economic activity has been expanding at a moderate pace while inflation has moved up since earlier in the year and remains somewhat elevated.

### Powell's presser:

A weak US jobs market cast a pall on US Fed Chair Jerome Powell's presser, with its somewhat dovish tone. Powell said the slowdown in hiring is partially due to slower labor force growth. He justified the Fed's elevated treasury purchases as a reserve management aimed at maintaining an ample supply of reserves. On inflation, the Fed Chair reiterated that tariff has been a major driving factor and that inflation may start coming down in the second half of 2026. He acknowledged that huge AI spending is supporting business investments. He concluded that the present interest rate to be within a broad range of neutral policy estimates; but cautioned that there is no risk-free path for Fed policy as it navigates the tension between its employment and inflation goals.

### Financial markets cheer the Fed's decision

- Precious metals (notably silver) and COMEX copper recovered sharply to close higher
- Crude oil defied somewhat bearish DoE report to close higher; drew support from Venezuela factor, too
- US treasuries rallied – bull steepening.
- US Dollar Index sank 0.63% to 98.59
- US equities surged
- USD-INR fell nearly 25 Paise in NDF market

Asset/Instrument	Change in the wake of the FOMC meeting	Remarks
Gold	Up nearly 0.5%	In short-term - supported by ETF inflows, inflation hedge buying. Healthy risk appetite may cap gains.
Silver	Up nearly 1.5%	ETF inflows, inventory tightness need to be monitored.
COMEX Copper	Up nearly 0.5%	Chinese demand weak. Rallying mainly on inventory dislocation.
Crude oil	Gained 1.5%	Supply glut
US 2-year Treasuries	Yields down 2.24%	Yields seen rangebound in near-term. NFP data crucial.
US 10-year Treasuries	Yields down 0.74%	Global long-term yields surging on fiscal concerns, inflation worries, stimulus-driven growth prospects. NFP data crucial.
US Dollar Index	Down 0.60%	Short-term rangebound, long-term bearish
USD-INR	Fell 0.30%	Likely to test 90.60 resistance
Risk assets	Up	AI valuation concerns, long-term yields need to be monitored

Source: Bloomberg; Mirae Asset Sharekhan Research

### Major data/events ahead:

- US non-farm payrolls data on December 16.
- Bank of Japan's monetary policy decision on December 19. Yen carry trade unwinding possibility exists.

### Our View:

- Pivoting on balance sheet, as the Fed embarks on purchasing treasuries, will further ease US financial conditions
- Treasury buying plan in accordance with its plan chalked out in October 30 FOMC meeting wherein the Fed said that it will end the asset run-off (reduction of securities holdings) beginning on December 1 and will restart limited purchases of Treasury securities and will reinvest the proceeds of maturing mortgage-backed securities into Treasury bills.
- Extent and timing of additional adjustments is a hint at a temporary pause in rate cutting spree. The Fed Chair said that the central bank is well-positioned to wait and see how the economy evolves
- Median forecasts show no changes from September version:

Year	Median rate (%)	Implied rate cut
2025	3.60	75-bps
2026	3.40	25-bps
2027	3.10	25-bps
2028	3.10	no cut

Source: Bloomberg; Mirae Asset Sharekhan Research

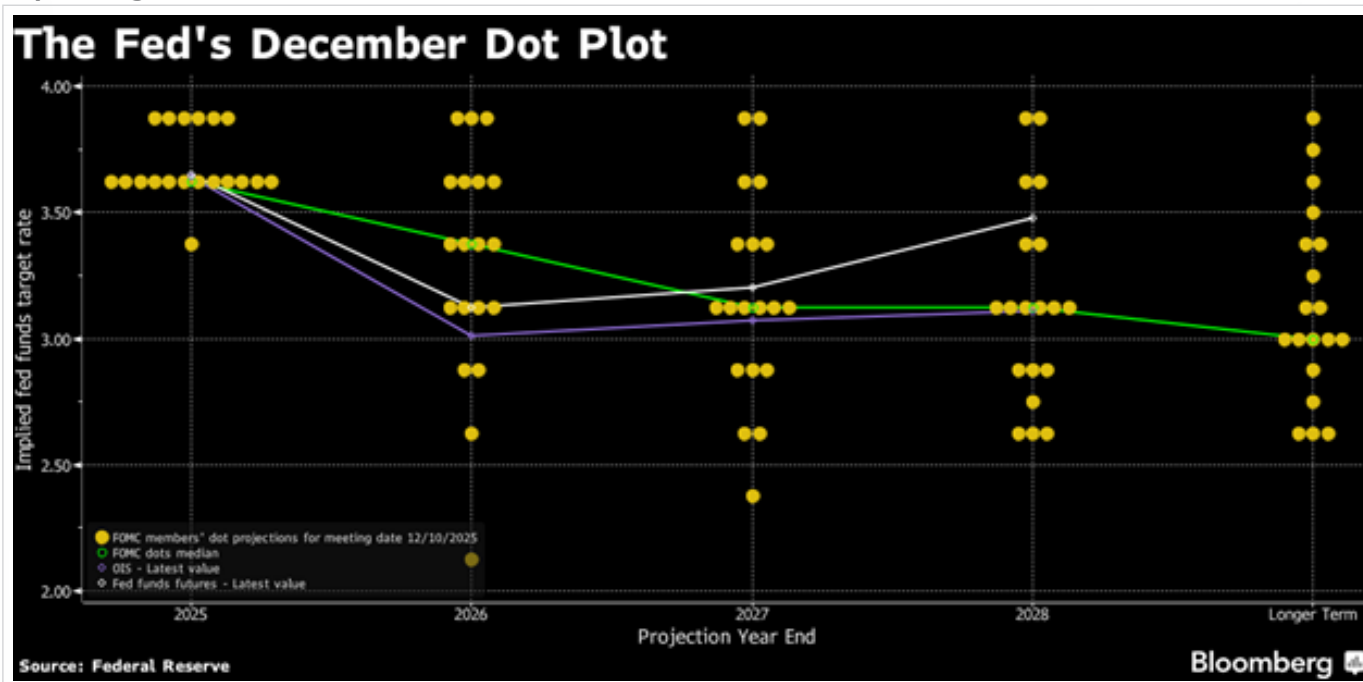
- US Fed is downplaying inflation risks (normalizing inflation at 3% (as Powell attributed surge in long-term yields to strong growth expectations as a possible factor).
- US jobs market continues to weaken, though readings may be occasionally erratic
- Although the Fed ostensibly cited money market tightness as a reason behind its treasury purchases, private credit concerns could also drive rate cuts.
- The Fed is more concerned about job market weakness than inflation risk
- Overall, even though markets now look for fewer rate cuts next year, especially after ECB's Schnabel and RBA's Governor Michelle Bullock somewhat unexpectedly took hawkish stances recently, the FOMC's monetary policy is somewhat dovish because:
  - No change in Fed's dot plot despite growth being revised higher
  - Going by Fed Chair Powell's hawkish stance at the October 30 meeting and spirited opposition to rate cut idea as shown by some Fed officials, markets have been expecting more aggressive dissent from the Fed members.
  - The Fed is more concerned about the job market weakness rather than upward risk in inflation.
  - Treasury purchases directly support US government's steady borrowing.
  - Fiscal dominance policy is becoming quite apparent.
  - Although, technically, the T-bill buying plan is not a QE as it does not extend duration and as per the Fed it is not an economic stimulus, however, ending QT and starting T-bill purchases is a liquidity-friendly approach that can be construed as 'not QE' in name only.
- **Hawkish signals/data include:**
  - As per the December plot, seven officials see no further rate cut or higher rate than the 2025 median rate of 3.6% in 2026 as compared with four in September meeting.
  - The Fed's projections do not show deteriorating unemployment rate.
  - The Fed may take a pause until March meeting.
- A downside in commodities is expected to be limited unless the US nonfarm payroll report throws a major surprise. Yen carry trade unwinding could be yet another source of volatility in commodities. In the present context, buying the dips is a preferred strategy. We expect commodities to do well as the Fed cuts rate despite high inflation and China may come out with more details of its much-expected stimulus as soon as in early 2026.

## Summary of economic projections

SEP	Median (%)				
Variable	2025	2026	2027	2028	Longer run
<b>Change in real GDP</b>	<b>1.7</b>	<b>2.3</b>	<b>2</b>	<b>1.9</b>	<b>1.8</b>
Sep. Projection	1.6	1.8	1.9	1.8	1.8
June projection	1.4	1.6	1.8		1.8
<b>Unemployment rate</b>	<b>4.5</b>	<b>4.4</b>	<b>4.2</b>	<b>4.2</b>	<b>4.2</b>
Sep. Projection	4.5	4.4	4.3	4.2	4.2
June projection	4.5	4.5	4.4		4.2
<b>PCE inflation</b>	<b>2.9</b>	<b>2.4</b>	<b>2.1</b>	<b>2</b>	<b>2</b>
Sep. Projection	3	2.6	2.1	2	2
June projection	3	2.4	2.1		2
<b>Core PCE inflation</b>	<b>3</b>	<b>2.5</b>	<b>2.1</b>	<b>2</b>	
Sep. Projection	3.1	2.6	2.1	2	
June projection	3.1	2.4	2.1		
<b>Memo: projected appropriate policy paths</b>					
<b>Fed fund rate</b>	<b>3.6</b>	<b>3.4</b>	<b>3.1</b>	<b>3.1</b>	<b>3</b>
Sep. Projection	3.6	3.4	3.1	3.1	3
June projection	3.9	3.6	3.4		3

Source: Bloomberg; Mirae Asset Sharekhan Research

## Implied target rate



Source: Bloomberg; Mirae Asset Sharekhan Research

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