MIRAE ASSET Sharekhan

Arc

Commodity

November 21, 2025

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Commodities: Vigilance amid Volatility

Key Points

- Of late, commodities prices have come under stress owing to multiple factors that warrant caution. Many events and data in the days ahead would also underscore vigilance amid high volatility.
- The diminishing odds of a Fed rate cut in December weighs hugely on commodities.Wobbly risk assets on tech valuation and RoI concerns call for a caution. Funding stress in money markets add to the risk.
- Recent Sino-Japan tension is an unexpected source of geopolitical tensions.
- US Fed rate cut odds may swing wildly as more clarity emerges on the US's economic scenario.

Major factors at play:

1. Funding stress:

Key Drivers of Spread Widening:

- **US Fed's quantitative tightening (QT):** Reserves fell from \$3.5 trillion to ~\$2.85 trillion, reducing liquidity.
- **Treasury issuances surge:** Heavy bill and bond supply increased repo financing needs.
- **Reverse repo facility drain:** RRP collapsed from \$2.5T to near zero, removing a liquidity buffer.
- **Hedge fund basis trades:** Leveraged positions amplified collateral demand.
- **Regulatory constraints:** SLR limits also tighten repo supply.
- **TGA** drained liquidity due to the government shutdown.

2. Fed speakers turn hawkish:

- Federal Reserve Bank of Kansas City President Schmid, Federal Reserve Bank of Cleveland President Beth Hammack and Federal Reserve Bank of St Louis President Musalem spoke against December rate cut as inflation remains elevated.
- Federal Reserve Bank of San Francisco President Mary Daly said it is too soon to decide whether policymakers should lower rates in December.
- Minneapolis Fed President Kashkari sees current inflation running at 3% to be too high.

3. FOMC minutes:

- The October 28-29 FOMC minutes released on November 19 showed that most FOMC policymakers noted that further policy rate reductions could make inflationary risks entrenched or could be misinterpreted as implying a lack of policymaker commitment to the 2% inflation objective, however, exact split of 12 voting members is not known. Nonetheless, December rate cut probability has fallen further on hawkish FOMC minutes.

4. US September non-farm payroll report

- The US data deluge after the government's reopening will be closely monitored by investors. September non-farm payroll report released on November 20 showed that US added 119,000 jobs in September Vs the forecast 53K, though two-month net job revision came in at -33,000. Private payrolls increased by 97,000 jobs versus the forecast of 65,000 jobs, but manufacturing jobs declined by 6,000,marking the fifth straight decline. Unemployment rate ticked higher from 4.32% to 4.44% as labour force participation rate increased from 62.3% to 62.4% (estimate 62.30%). Average hourly earnings increased 0.2% m-o-m Vs the forecast of 0.3%, though prior data was revised higher from 0.3% to 0.4%. Earnings were up 3.8% y-o-y (forecast 3.7%) as prior data was revised higher from 3.7% to 3.8%. The report is encouraging which has allayed concerns about the US job market to some extent. Nonetheless, the job reports seem to be erratic.

- The US shed an average of 11,250 private-sector jobs a week in the four weeks ended October 25, ADP said. ADP further reported that US companies shed 2,500 jobs per week on average in the four weeks ended Nov. 1. Going by certain estimates, US jobs in November declined by 50,000.

5. US-China rare earth deal details yet to finalised:

- US Treasury Secretary Scott Bessent said that "rare earth" deal between the U.S. and China will "hopefully" be done by Thanksgiving Day.

6. China-Japan tensions

- On November 7, Japan's PM Sanae Takaichi, in adherence to the ex-PM Abe's foreign policy posturing linking Taiwan with Japan's security concerns, said that if military force were to be used in a Taiwan conflict, including the use of warships, it could be considered as a 'survival-threatening situation for Japan. Her remarks have led to heightened tensions between the countries. China's vice foreign minister Sun Weidong retaliated by saying that China will strike back hard should anyone interfere with China's reunification cause. China and Japan have issued mutual travel advisories.
- As Takaichi, a staunch nationalist, is expected to stick to her stance, no breakthrough seems imminent.
- The Japanese Yen and bonds have weakened due to concerns about fallout of this most disconcerting friction between these two countries in the recent years.
- Japan is completely dependent on China for rare earths. Markets are concerned about the possibility of China blocking rare earth exports to Japan.
- So, far Yen carry trade unwinding is not visible in financial markets as Yen remains weak amid elevated JGB yields.

7. US data uncertainity

- After a record 44-day US government shutdown, the data fog is finally ending with the beginning of macroeconomic releases. However, lack of crucial data in this period has been significantly instrumental in stoking uncertainty over the Fed rate cut in December. October nonfarm payroll report will be released without unemployment data as household survey was not done. Similarly, October CPI report may not be released.
- Data alignment could be distorted as data release timeline gets affected. For example – October ADP is already out, which makes September NFP report somewhat stale.

8. AI valuation concerns

- Stratospheric tech valuations and huge spending by tech companies are stoking concerns about enormous leveraged spending and return on investment as AI bubble talks gain currency. Although Nvidia's Q3 earnings and forward guidance have alleviated bubble concerns to a great extent, concerns abound how long outsized AI spending can sustain continue to linger.
- US Treasury Secretary Bessent said US President Trump may announce the next Fed Chair before Christmas,

9. UK Budget:

- UK gilt yields fell in October but surged in second week of November on fiscal concerns as it was reported that the Chancellor Rachel Reeves may not raise taxes.
- As the UK buffer around 10 billion Pounds remain low, Reeves faces pressure to double it and meet fiscal objectives, for which raising income tax is a preferred way. However, such a step will go against Labor's pre-election promise.
- Reeves would have a touch task in balancing growth and fiscal equations in the upcoming UK's budget on November 26 without being seen as sacrificing long-term fiscal gains for short-term.
- Budgdet related weakness in Pound and gilts will support gold prices.

10. More stimulus coming:

Japan:

- Japanese PM Sanae Takaichi will unveil a $112 billion economic stimulus package that is about 27% more than what was pledged by the former PM Ishiba last year and is 2.6% of its GDP. The stimulus will aim at combating inflation, strategic spending and shore up defence. It is to be noted that the nation's GDP contracted by 1.8% on an annualised basis in Q3.

US:

- The US economy is expected to pick up in H1 2026 due to the impact of 'One Big Beautiful Bill Act' (OBBBA) signed by the President Trump as new tax cuts take effect.

China

- China is expected to announce new measures to support its struggling property market, which may otherwise destabilize its financial system. The measures may include providing new homebuyers mortgage subsidies for the first time nationwide, raising income tax rebates for mortgage borrowers and lowering home transaction costs.

Europe

- Germany's government plans additional spending amounting to 4.75% of GDP in 2026.

11. USDINR:

- On November 21, the Indian rupee hit a fresh all-time low against the US Dollar as the Reserve Bank of India probably stepped away from intervention around 88.70-88.80 levels. The domestic currency weakened to 89.71 in the NDF market, which supported the domestic commodities prices. Although a trade deal between India and the US by the year-end, which could reduce tariff to 25%, may support the Indian Rupee, in near-term further downside pressure may not be ruled out as the Fed rate cut probability falls, while the RBI's rate cut chances brighten on slowing inflation and weakness in GDP tracker.
- Bloomberg India GDP growth tracker has decelerated from 5.2% y-o-y growth in September to 4.1% y-o-y growth in October.
- Indian Rupee, down 4.3%, is the worst performer in Asia this year.
- US-India trade deal , expected by the year-end, can lead to sharp decline in the USDINR though; thus, two-way sharp moves are not ruled out.
- The rupee may decline to Rs 90.50-91.

12. Fed likely to begin QE:

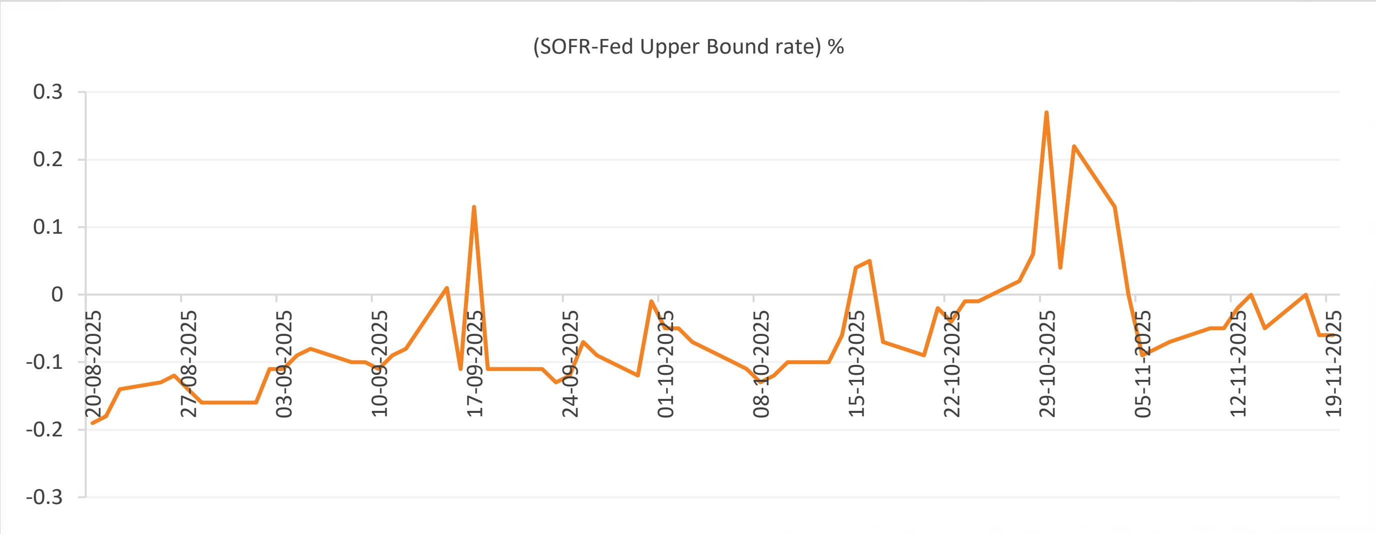
- On November 19, the Federal Reserve Bank of New York's Roberto Perli, who oversees the central bank's securities portfolio and runs the System Open Market Account, said that as money market funding stress persists, signaling that bank reserves are no longer abundant, the Fed will not have to wait long before purchasing assets to sustain desired liquidity levels. His comments are in line with that of New York Fed President John Williams who said it will not be long before the central bank reaches a level where reserves are considered ample, and the "natural next stage" would be a gradual purchase of assets.

Conclusion:

- Short-term commodities prices may continue to face downside pressure on funding stress, shaky risk assets, dwindling odds of a Fed rate cut in December and a firmer US Dollar.
- Industrial commodities are more vulnerable than gold.
- Indian rupee may be volatile which can cut both ways.
- The decline in commodities is expected to be short-lived on stimulus measures in key economies, Fed rate cuts in 2026 and possibility of Fed QE.
- Markets are likely to remain fixated on Fed rate odds, which will lead to choppiness and volatility. Rate cut odds can flcutuate wildly as more data are released amid a fragile-looking US job market. In addition, it is to be noted that Fed's Williams and governor Waller still look for December rate cuts, while Fed Chair Powell is adapting data-dependent approach. So, December 9-10 FOMC meeting could still be a live meeting.
- We remain positive on precious metals.
- While industrials may struggle in near term, medium to long term outlook remains bright.

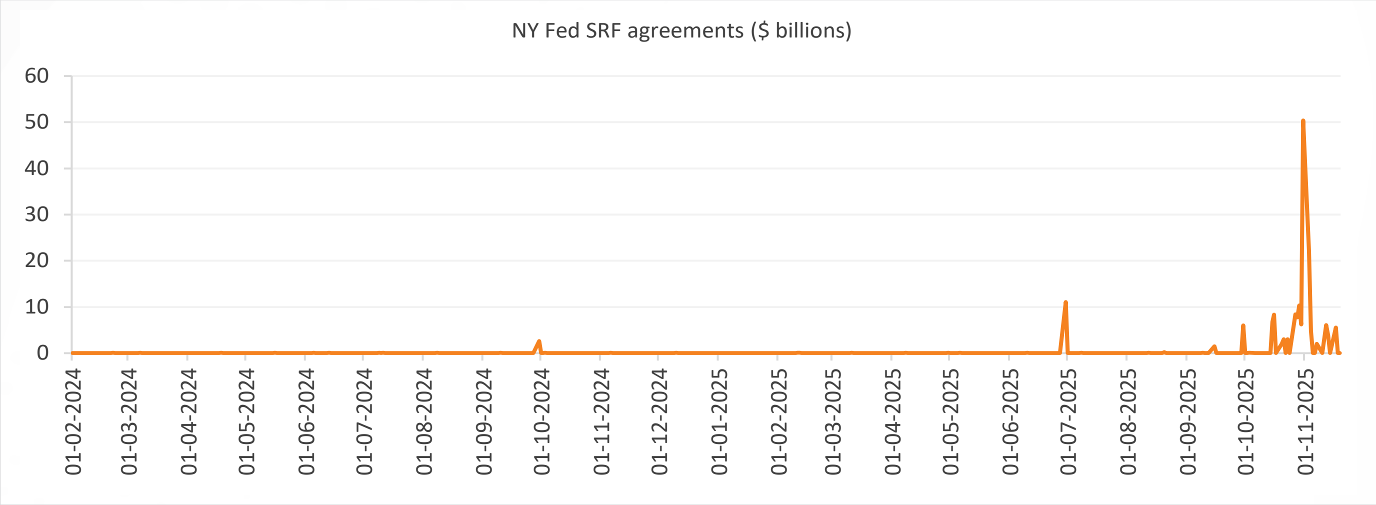
Story in Charts:

Funding stress



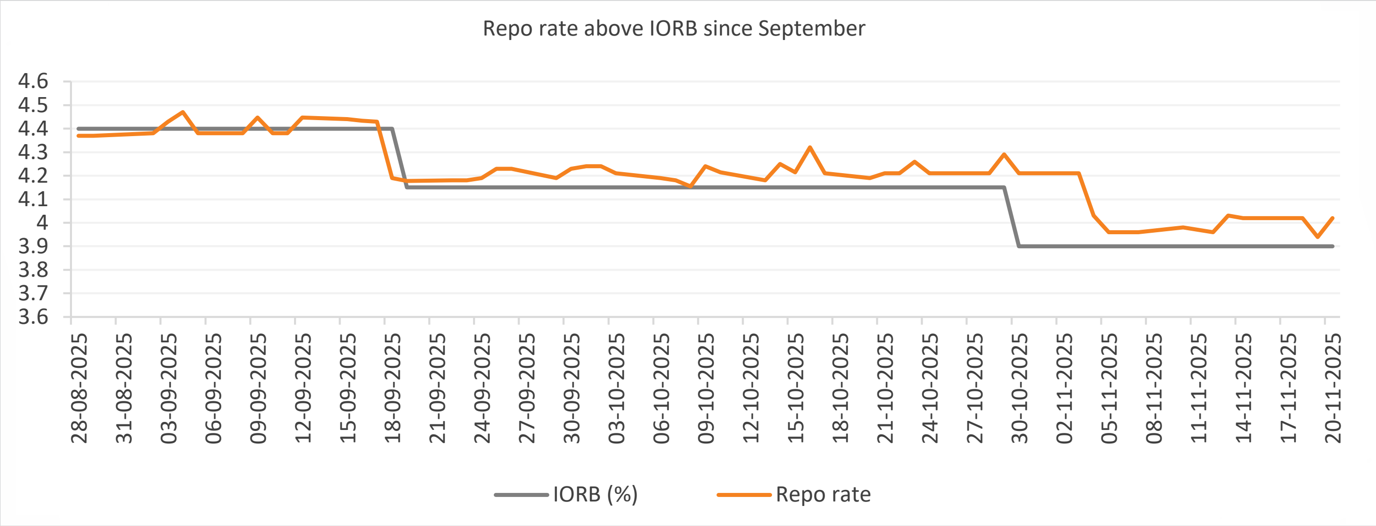
Source: Bloomberg

SRF getting tapped despite stigma



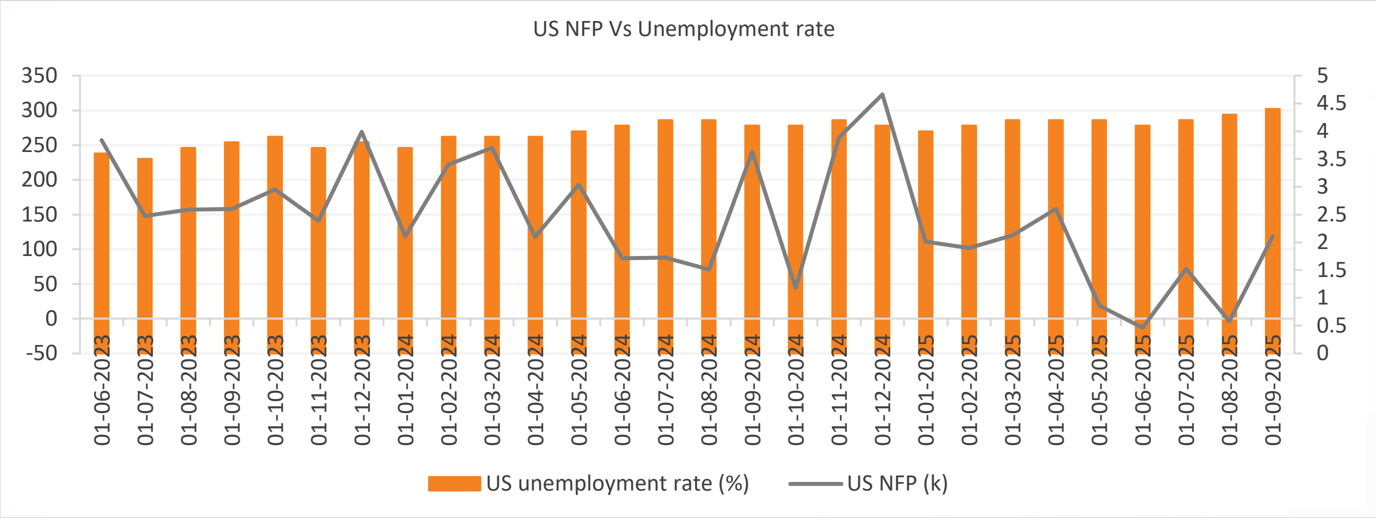
Source: Bloomberg

Repo rate v/s IORB trends



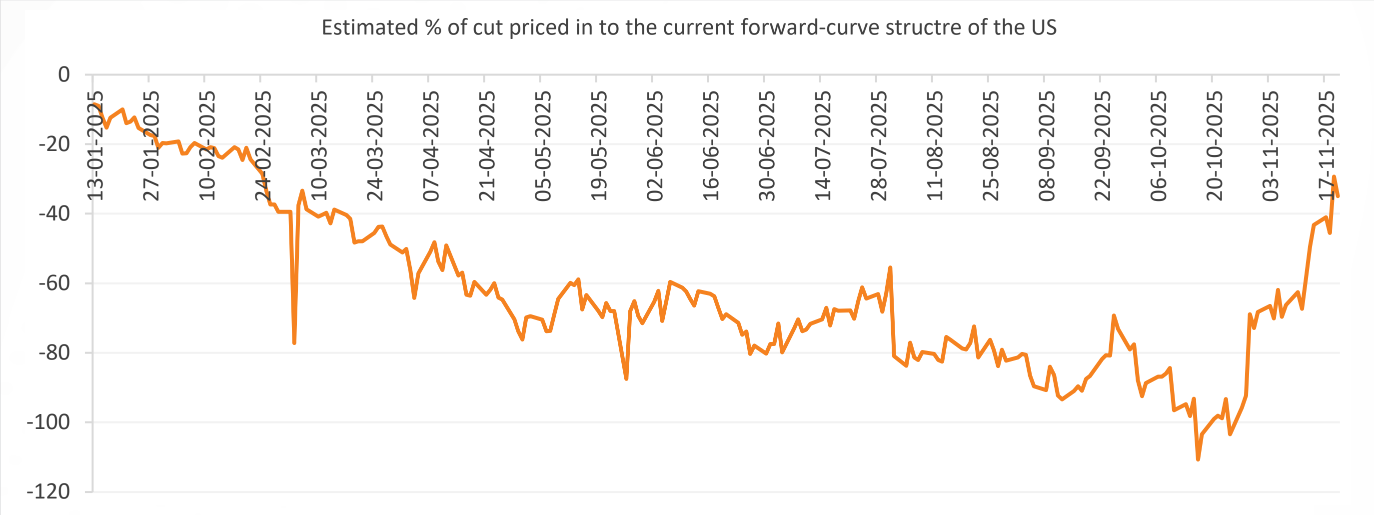
Source: Bloomberg

US NFP Vs unemployment rate



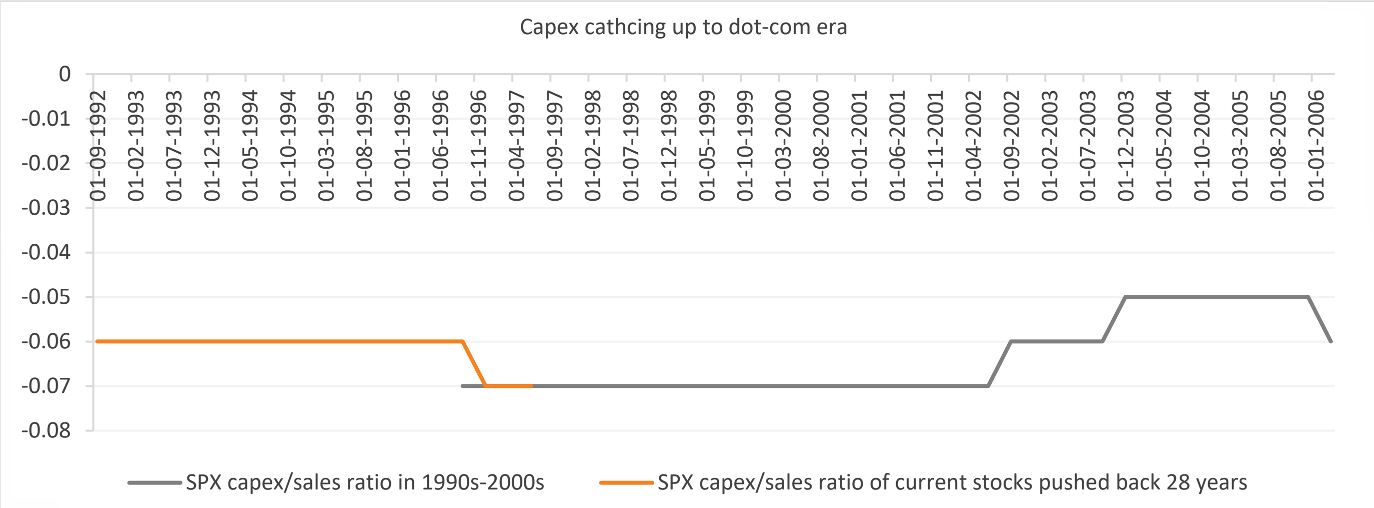
Source: Bloomberg

US Fed rate cut expectations declining



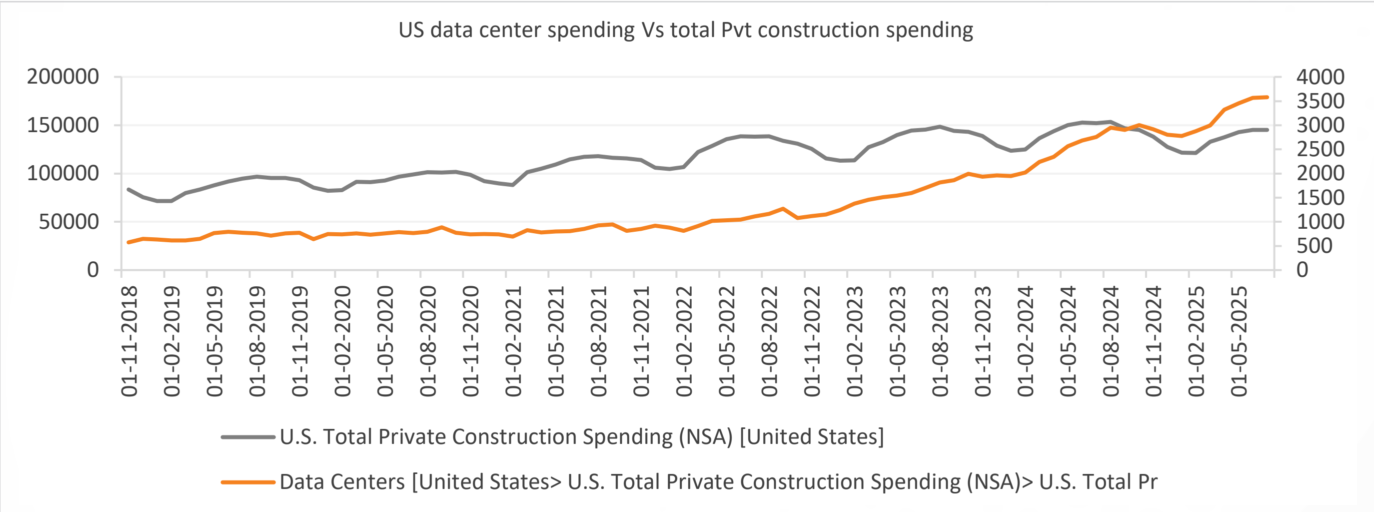
Source: Bloomberg

US Capex trends - AI concerns



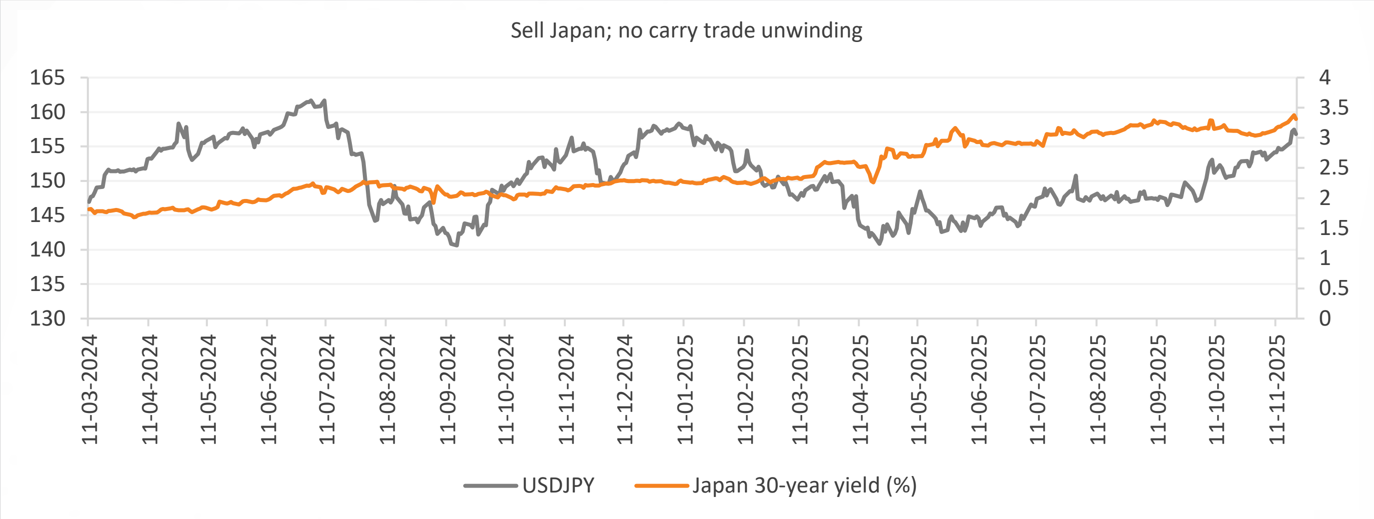
Source: Bloomberg

US data center spending



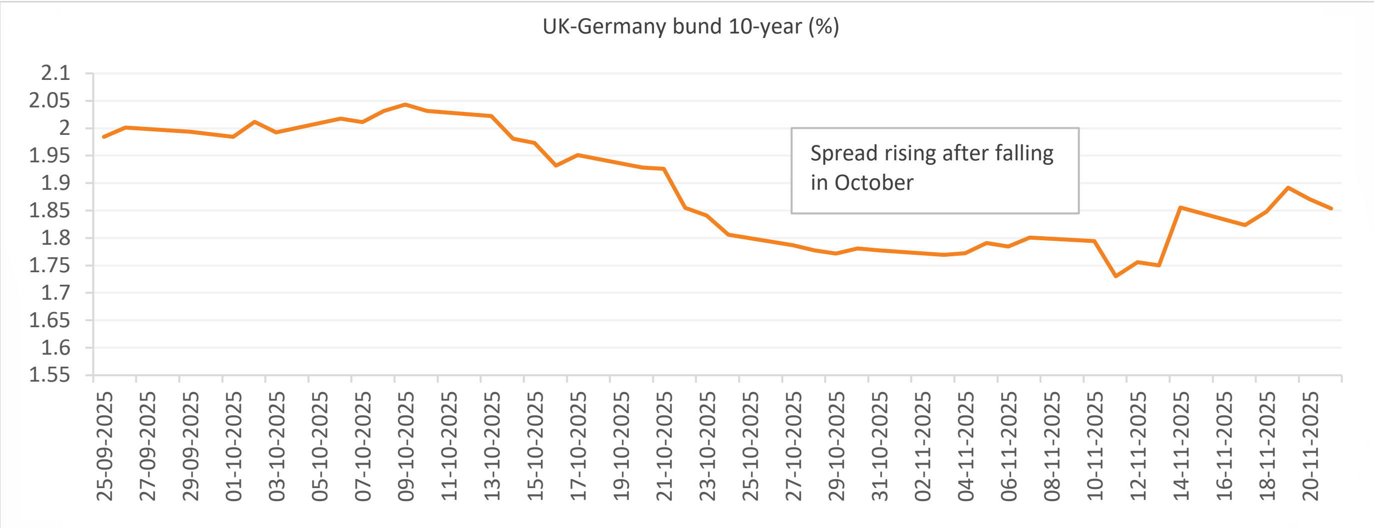
Source: Bloomberg

Falling Yen and surging Japanese yields



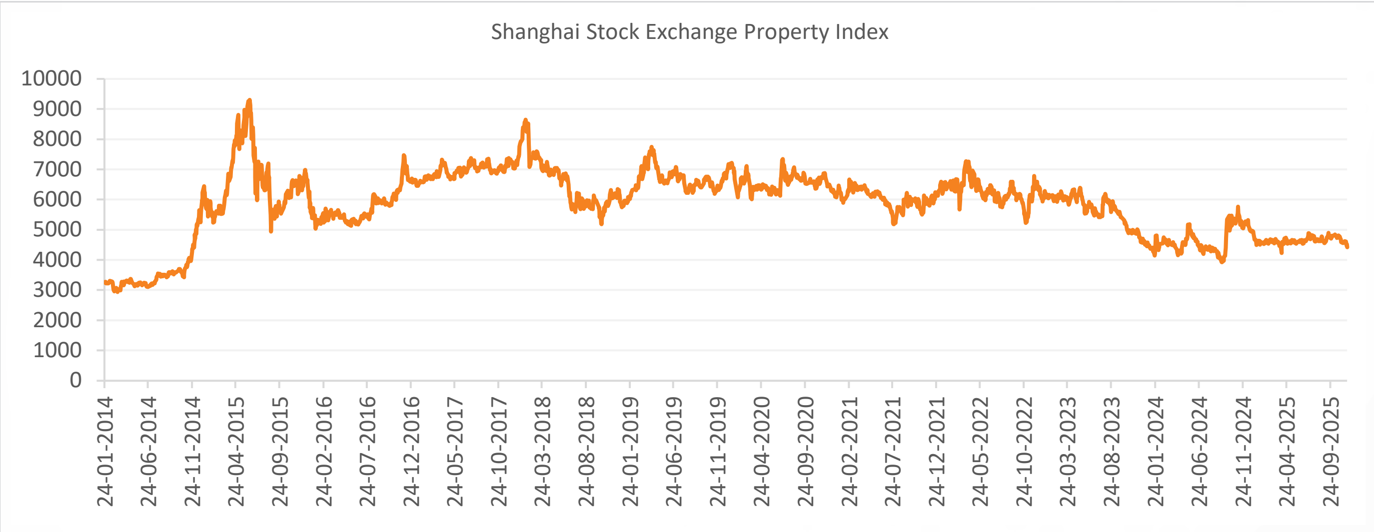
Source: Bloomberg

UK-Germany bond yields spread



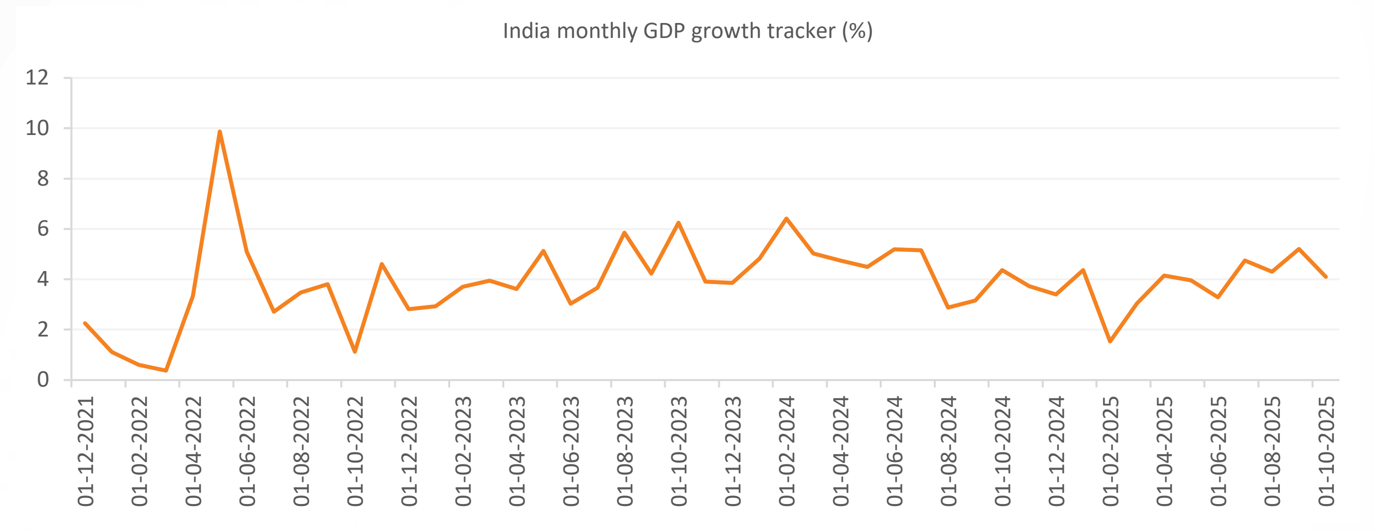
Source: Bloomberg

Chinese property market dull



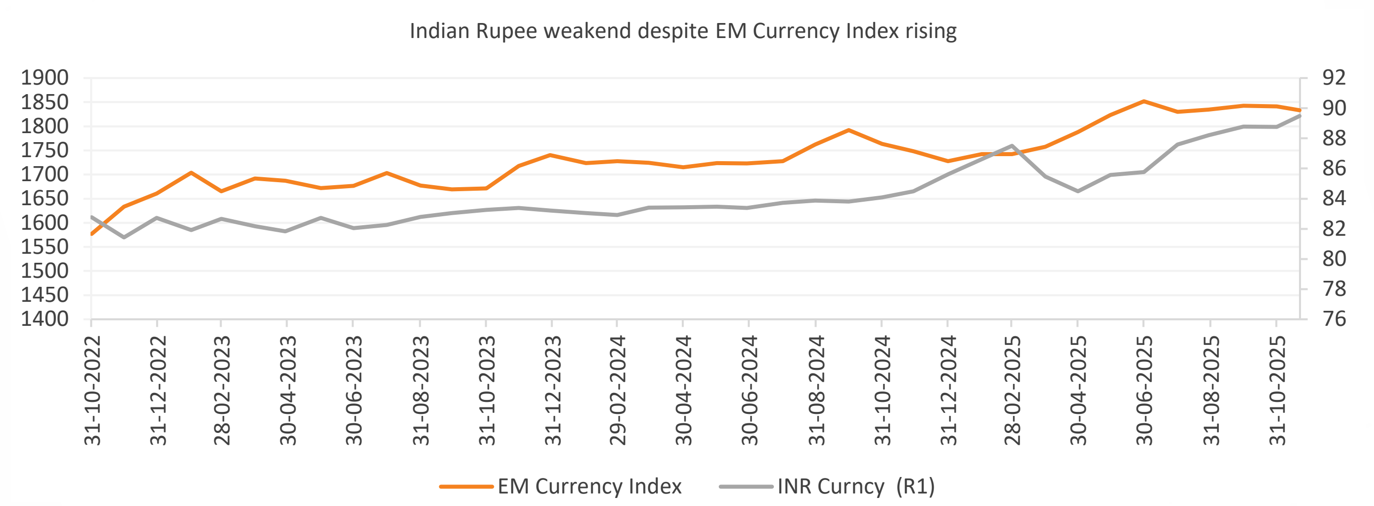
Source: Bloomberg

India's GDP growth trends



Source: Bloomberg

Indian Rupee takes a plunge



Source: Bloomberg

Commodity price trends

Instrument/Commodity	CMP
Gold (spot)	$4072
Silver (spot)	$49.75
LME 3-month copper	$10718
LME 3-month aluminum	$2791
LME 3-month zinc	$2980
WTI frint-month crude oil	$58.29
Dollar Index	100.21
USDINR	89.62
10-year US yields	4.06%
10-year Japan yield	1.77%
10-year UK yield	4.54%

Source: Bloomberg

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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.

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