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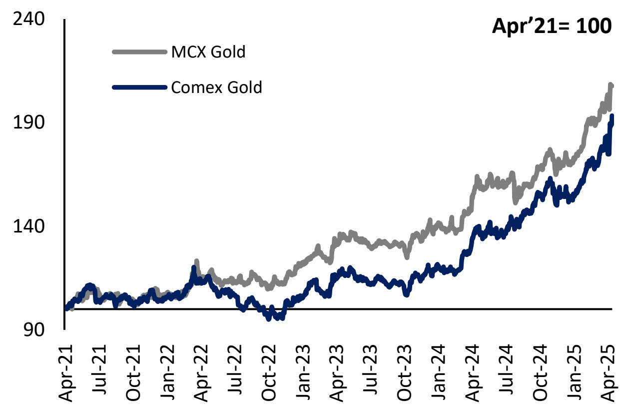
# Commodities Insight

16th April, 2025

## Gold Bull's Marathon!!!

Performance of gold and silver in just four months of 2025 has been absolutely astounding. Gold posted gains of ~25% marking an all-time high on both MCX and COMEX; meanwhile Silver gained ~15% YTD on COMEX. Gold has surprised market as its pace and volatility this year has been sharper than Silver as well. In recent fall amidst President Trump's tariff update Gold's fall was quite limited but, the rise was much sharper. A series of key events—including the US Tariff war with the world especially with China, the Federal Reserve's policy decisions, Geo-political tensions, investment demand, have had a significant impact on market dynamics and investor sentiment.

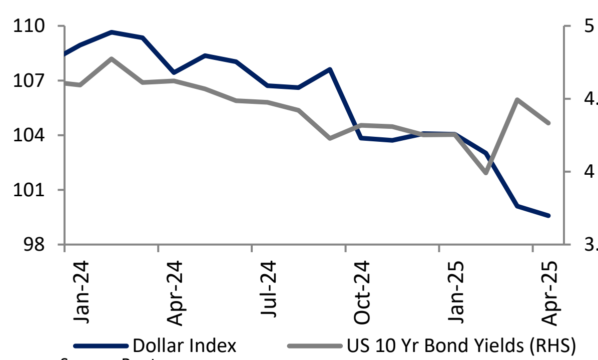



Source: Reuters

Trump administration targeted 50-60 trading partners with the goal of narrowing the trade imbalance, which had become a significant concern for the U.S. economy. This aggressive trade policy led to a full-blown trade war, particularly with China, where both nations exchanged steep tariffs on each other's goods. *The Trump administration's decision to impose tariffs as high as 145% on Chinese goods and China's swift retaliation with 125% tariffs on U.S. exports only heightened distress in market.*

Moreover, *as tariffs between the U.S. and China escalated*, the global economic outlook remained uncertain. Forecasts from reports of few investment bankers show a possibility of a prolonged slowdown or even a recession, further fuelling demand for safe-haven assets like gold. This uncertainty was compounded by a *weaker U.S. dollar*, which dropped by over 7% against major currencies. Despite this*, U.S. Treasury yields rose*, as hedge funds unwound their positions, fearing the economic ramifications of *higher tariffs, inflation, and slower growth*.

Dollar Index and US 10Y Yield

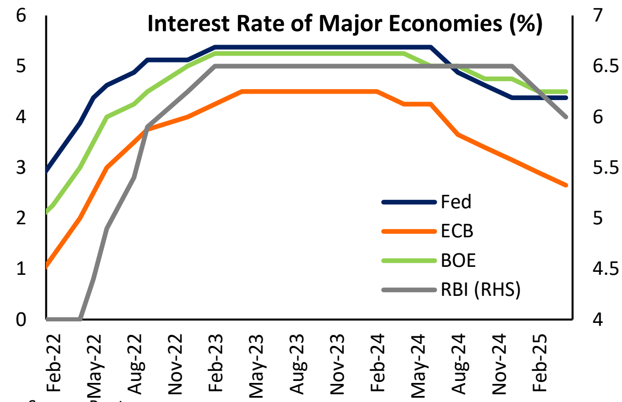



Source: Reuters

One important factor contributing to the surge in gold prices is the expectation of rising inflation amid trade tensions. With the U.S. economy potentially facing *stagflation* — a combination of stagnating growth and rising inflation — many investors turned to gold as a hedge against these risks. Central banks, particularly in emerging markets, have also been buying gold at a rapid pace. China, for instance, has been accumulating significant reserves of gold, further supporting demand.

Despite these concerns, it's important to note that the U.S. labor market remains relatively strong, with unemployment rates at a historically low level. This tight labor market has provided some optimism in the face of a potential economic slowdown, suggesting that the U.S. economy may be better positioned to weather the storm compared to others.

Turning to U.S. monetary policy, the Federal Reserve's actions have played a crucial role in shaping market sentiment. In 2024, the Fed implemented three interest rate cuts in an effort to stimulate economic growth and address concerns over a potential slowdown. However, since the start of 2025, the *Federal Reserve has adopted a "wait and watch" approach to interest rates.* This shift in policy reflects a more measured outlook as the central bank seeks to evaluate the broader economic effects of Trump's tariff policies and other global factors.



Source: Reuters

President Trump, however, has been vocal in his desire for lower interest rates, consistently signaling to Federal Reserve Chairman Jerome Powell that he believes rate cuts would be beneficial for the economy. Trump's stance is rooted in belief that lower rates could stimulate business investment and consumer spending, thus boosting economic activity. Despite Trump's calls, Powell has resisted pressures, citing concerns about inflationary pressures from tariffs and the potential for slowing economic growth. Powell and the Fed have emphasized that, without clearer clarity regarding the long-term impact of the tariff war and its effects on inflation and growth, there is no rush to reduce interest rates further.

## Outlook:

In conclusion, the ongoing trade tensions, coupled with broader economic risks stemming from higher tariffs and potential stagflation, have created an environment that continues to support high demand for gold. As central banks increase their gold reserves and inflationary concerns persist, gold is likely to remain an attractive asset for investors seeking safety and protection against potential market volatility. Furthermore, the Federal Reserve's cautious stance and President Trump's insistence on lower rates add another layer of uncertainty, ensuring that gold remains a favored hedge in these turbulent times.

*It seems like, Sky is the limit for gold bulls this year.* If major nations reach a tariff settlement with the U.S. or if uncertainty pauses for an extended period, we may see some profit booking in bonds and gold. However, given the broader fundamentals, we continue to maintain a buy on dips scenario for bullion from a medium to long term perspective.

*Technically, from medium to long term perspective:*

*Important support is near ₹ 91,000 while, resistance is near ₹99,000. Similalry, on COMEX, $3100 and $3400 are the levels to watch for on COMEX*

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