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DAILY BASE METALS REPORT

Specs Drive Commodities on Fed Dovishness

Summary

- Markets remain highly sensitive to policy expectations, with any further softening in US data likely to reinforce the prevailing dovish bias.
- Base metals jumped higher as renewed concerns over copper supply constraints drew market attention.
- We believe a sustained rally in copper is unlikely based on current fundamentals, with markets likely to experience a phase of consolidation in the short term.
- Precious metals retain a modest upward tilt, but sustained upside will require either clearer evidence of slowing US activity or a deeper pullback in the dollar.

Macro

US stocks opened higher today, extending recent gains as confidence builds around the possibility of a December Fed rate cut. Futures advanced as markets priced in more than 80% probability of a 25bps reduction next month. The dollar index weakened below 99.70, while the 10-yr Treasury yield edged slightly higher, holding comfortably above 4.0%.

Attention now turns to the Fed's latest Beige Book, which may offer additional insight into regional economic conditions. However, we believe that the government shutdown has created gaps in the data flow, leaving policymakers without the comprehensive evidence typically required to justify an imminent move. Even so, if market expectations continue to firm, the situation risks becoming self-fulfilling: while the Fed stresses its data-dependent approach whenever possible, it will also be mindful of the financial stability implications of surprising markets at a moment when hedging against a no-cut outcome appears limited. In our view, this dynamic could increasingly shape the narrative as the December meeting approaches.

In the UK, gilt yields fell sharply after the government delivered its Budget, with the 10-yr yield dropping towards 4.44%, close to the lowest levels of the year. Markets interpreted the announcement positively, viewing the measures as supportive of improved fiscal credibility and reduced near term funding pressures. The immediate decline in yields reflects growing confidence that borrowing requirements and interest rate risks may prove more manageable than previously feared.

Base Metals

Base metals jumped higher on a combination of a softer dollar and more bullish pressures stemming from copper. As mentioned in yesterday's comment, copper is being buoyed by news that Chilean producer Codelco plans to more than triple its premium to Chinese customers. This move highlights a potential shift to prioritise US customers over global ones, especially given this year's tariffs and tightening material supply. It supports our long-term bullish outlook for copper, as a fragile balance is set to tip into deeper deficits by the end of the decade, as availability declines.

Today's jump toward the key \$11,000/t level further underscores the fragility of the current refined market. A sustained move above this level appears unlikely to us in the near term from a fundamental standpoint, suggesting that prices may soon enter a phase of short-term consolidation. Nevertheless, longer-term bullish factors remain intact, with growing upside risks for copper, especially into 2026, if further supply disruptions emerge. This is expected to provide solid support for aluminium and zinc, given their close correlation with copper. Aluminium closely followed suit, superseding the \$2,850/t level, and zinc jumped above \$3,050/t.

Precious Metals and Oil

A softer dollar helped boost precious metals. Gold rose to around \$4,160/oz, and silver climbed, testing resistance at \$52.50. The moves reflect renewed interest in interest-rate-sensitive assets, with precious metals benefiting from expectations of easier monetary policy and a softer dollar. Should Fed cut expectations continue to firm, both metals could find additional support, though gains are likely to remain constrained until clearer macro signals emerge.

All price data is from 26.11.2025 as of 17:30

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