

Commodities Insight

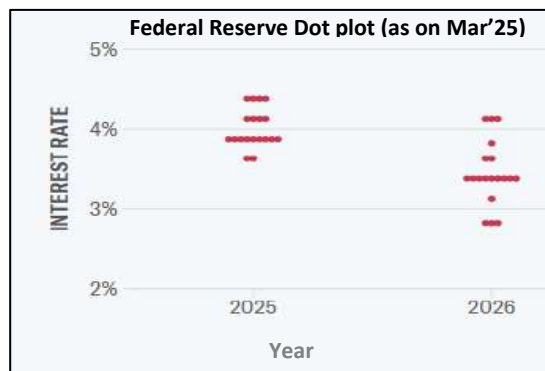
9th May, 2025

Fed's Fragile Balance!!!

The Federal Reserve concluded its May policy meeting by holding interest rates steady at 4.25%–4.5%, marking the third consecutive meeting without a rate change. Fed adopted a cautious tone, emphasizing the uncertain economic outlook and a data-dependent approach going forward. Chair Jerome Powell reiterated that while inflation has shown signs of moderation, it has not fallen enough to justify a rate cut. At the same time, he signaled that economic data does not yet support another hike either—keeping the Fed in a wait-and-watch mode.



Despite a resilient labor market—with job growth remaining steady—the Fed remains wary. Policymakers noted that the full effects of tariffs and supply-side disruptions may not yet be visible in the data. This cautious positioning suggests



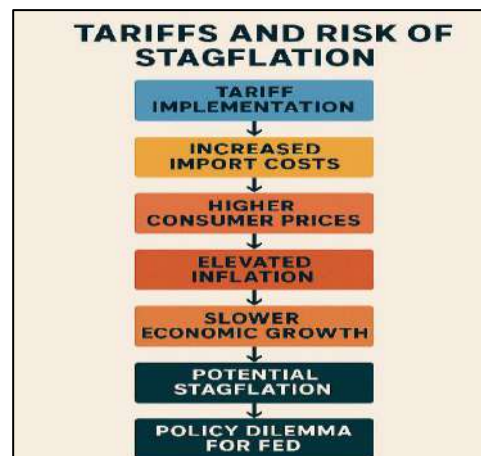
Source: Bloomberg

the Fed is keen to avoid premature moves, preferring to wait for clearer economic signals in the months ahead.

Fed Chair acknowledged that the U.S. economy faces extreme uncertainty, with recent global developments, particularly protectionist trade rhetoric and tariff escalations, complicating the Fed's policy path. He also highlighted emerging concerns about stagflation—where slowing growth collides with persistent inflation—as a potential risk if trade tensions continue to build.

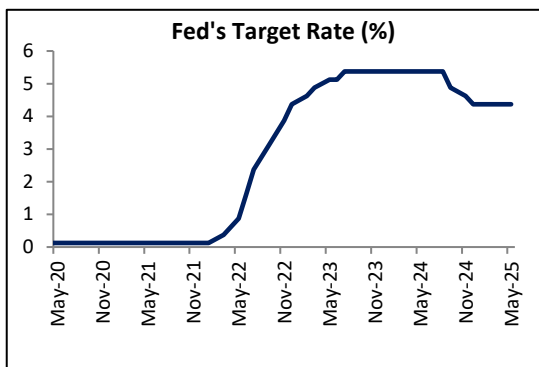
Gold prices surged to historic highs in the first quarter of 2025, recently touching \$3,500 reflecting a mix of safe-haven demand, central bank accumulation, and weakening confidence in Dollar. The rally was on the back of deepening concerns over geopolitical risks and fiscal indiscipline across economies. Interestingly, silver has not kept pace with gold, suggesting the rally is more about monetary fear than industrial optimism. This decoupling between the two metals has caught the attention of traders who traditionally see them move in tandem.

Adding to the complexity is President Trump's recent push for aggressive tariff measures. His proposal for sweeping tariffs, particularly targeting

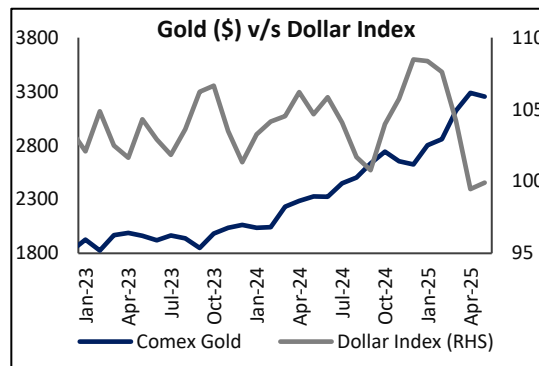


Source: MOFSL

foreign sectors like pharmaceuticals, auto and media, is now seen as a direct inflationary input in future economic forecasts. Governor Powell acknowledged this shift, noting that tariffs are beginning to play a larger role in the Fed's inflation modeling and risk assessment. With tariff levels already surpassing earlier expectations. However, recent updates regarding a possible ease off has weighed on overall sentiment. Both leaders have agreed to exempt tariffs on certain products and officials of both countries are expected to meet as well with an intention to find a "less aggressive way" ahead.



Source: Reuters



Source: Reuters

Gold prices responded with a mild uptick following the announcement, although the move remained muted, reflecting the fact that the Fed's stance was largely in line with market expectations. The metal continues to hover around all-time highs, supported by broader safe-haven demand, even as the Dollar Index and broader commodities remained largely unchanged. Markets reacted in a balanced manner, with no major dislocations. Bond yields held steady, and equity indices posted minor gains, indicating that investors had largely priced in the Fed's message. Still, the tone from Powell underscores the fragility of the current macro environment—one where policy missteps, geopolitical tensions, or unexpected data shocks could quickly alter sentiment. The muted response also reflects investor caution ahead of further developments in the US-China trade talks. Powell's tone underscored the fragility of the current macro environment, where sentiment remains highly sensitive to policy moves, geopolitical tensions, and data surprises.

In conclusion, the Fed's decision to pause while maintaining a cautious stance reflects both confidence in the progress made and nervousness about the road ahead. Powell's remarks make clear that the central bank is in a wait-and-watch mode, guided by economic data but constrained by growing external pressures. Any updates from trade tensions between US and China could overpower other fundamental update. With elevated geo-political tensions and updates regarding trade deal, overall volatility for the "safe haven asset" has also increased, hence cautious approach is advised.

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