

Commodities Insight

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Inflation Returns, Cuts Retreat

Gold and silver prices witnessed heightened volatility in 2026, reflecting a complex tug of war between safe-haven demand and macroeconomic headwinds. Prices initially found support from geopolitical tensions and recession fears, but struggled to sustain rallies as rising U.S. yields, a stronger dollar, and sticky inflation reducing appeal of non-yielding assets. Shift in expectations around monetary easing—particularly in Federal Reserve—has been a key trigger, with fewer anticipated rate cuts weighing on precious metals. At the same time, global central bank divergence has added another layer of complexity. While the Reserve Bank of Australia (RBA) recently initiated a rate hike cycle with a 25 bps increase, the Bank of Japan (BOJ) has kept interest rates unchanged despite earlier market expectations of multiple hikes in 2026, reflecting its continued cautious stance amid fragile domestic recovery.

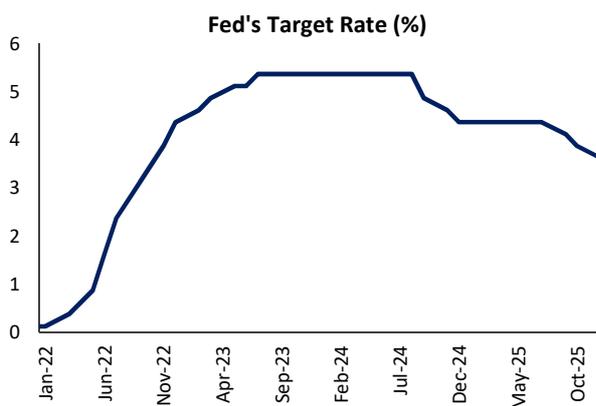
Fed policy meeting in Mar'26 marks a clear shift toward caution, reinforcing the narrative that easing cycle has paused for now. Fed kept **rates unchanged** for the second consecutive meeting, signaling that policymakers are not yet confident enough in the disinflation trajectory to resume cuts. The decision, passed with an 11–1 vote, saw Fed official Miran dissent in favor of a rate cut.

	Fed Projections (%)			
	Dec'25 projection	Revised projection for 2026	Dec'25 projection	Revised projection for 2027
GDP	2.3	2.4	2.0	2.3
Unemployment rate	4.4	4.4	4.2	4.3
PCE inflation	2.4	2.7	2.1	2.2
Core PCE inflation	2.5	2.7	2.1	2.2
Fed funds rate	3.4	3.4	3.1	3.1

Source: federalreserve.gov

From a projections standpoint, updated Summary of Economic Projections (SEP) reflects a more conservative outlook. The Fed now expects just one rate cut in 2026 and another in 2027, a notable downgrade from earlier expectations of a more aggressive easing path. **Inflation forecasts were revised higher**, with 2026 PCE inflation projected at 2.7%, well above the Fed's long-term 2.0% target. Officials acknowledged that inflation "remains somewhat elevated," and near-term expectations have risen, largely due to higher energy prices.

Fed meeting in March 2026 builds on the trajectory established since January 2026. At the start of the year, markets were positioned for a continuation of the easing cycle that began in late 2025, when the Fed delivered three rate cuts as inflation moderated and growth showed signs of cooling. The January 2026 meeting leaned cautiously dovish, with policymakers indicating that further cuts were possible if inflation falls towards their target. However, subsequent data—particularly sticky core inflation and resilient labor markets—prompted a reassessment. In March meeting, Fed had already begun signaling a pause, and now, with two consecutive holds, the central bank appears firmly in a “wait-and-watch” mode.



Source: Reuters

Market expectations have undergone some change in considerations alongside this shift. Expectations of three cuts, that expectation has now been scaled back dramatically to just one potential cut, reflecting persistent inflation risks and external uncertainties. Fed itself reinforced this shift, noting that last year’s rate cuts have already brought policy rates close to “plausible estimates of neutral,” reducing the urgency for further easing.

A key factor complicating the outlook is **the ongoing geopolitical tension** involving the United States and Iran. Governor Powell explicitly stated in his comments that the economic implications of developments in Middle East remain “uncertain.” The escalation has triggered a **rise in oil prices**, which is feeding directly into higher inflation expectations. This dynamic presents a classic policy dilemma: while geopolitical risks typically drive safe-haven demand—supporting assets like gold and silver—they simultaneously increase inflation through energy channels. For Iran, economic consequences are multifaceted. Increased conflict risks further sanctions, trade disruptions, and potential damage to energy infrastructure, all of which could constrain supply in global oil markets. This **supply-side pressure** is already contributing to elevated crude prices, reinforcing inflationary concerns globally. For Fed, this creates a challenging environment where **easing policy too soon could risk reigniting inflation**, especially when energy costs are rising.

Beyond geopolitics, additional factors are also weighing on the inflation outlook. **Tariff-related pressures** and concerns around a potential U.S. government shutdown have added layers of uncertainty. These elements are already influencing inflation expectations, making the Fed more hesitant to commit to rate cuts. While safe-haven flows might suggest tighter financial conditions, the inflationary impact of these disruptions is dominating policy considerations.

In conclusion, the Fed has transitioned into what increasingly looks like an extended pause phase. With inflation risks resurfacing due to energy prices, geopolitical tensions, and structural factors like tariffs, the bar for further rate cuts has risen significantly. The shift from expectations of multiple cuts to just one underscores a broader change in both policy and market sentiment. Going forward, the trajectory of inflation—particularly in the context of global uncertainties—will remain the key determinant of the Fed’s next move. Despite the geo-political tensions, market participants focus quickly shifted towards rising inflation risks and its implication on interest rate. Given the rally in precious metals last year and ambiguity regarding interest rates this year, Gold and Silver could take some breather and consolidate before moving to the next leg higher.

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