



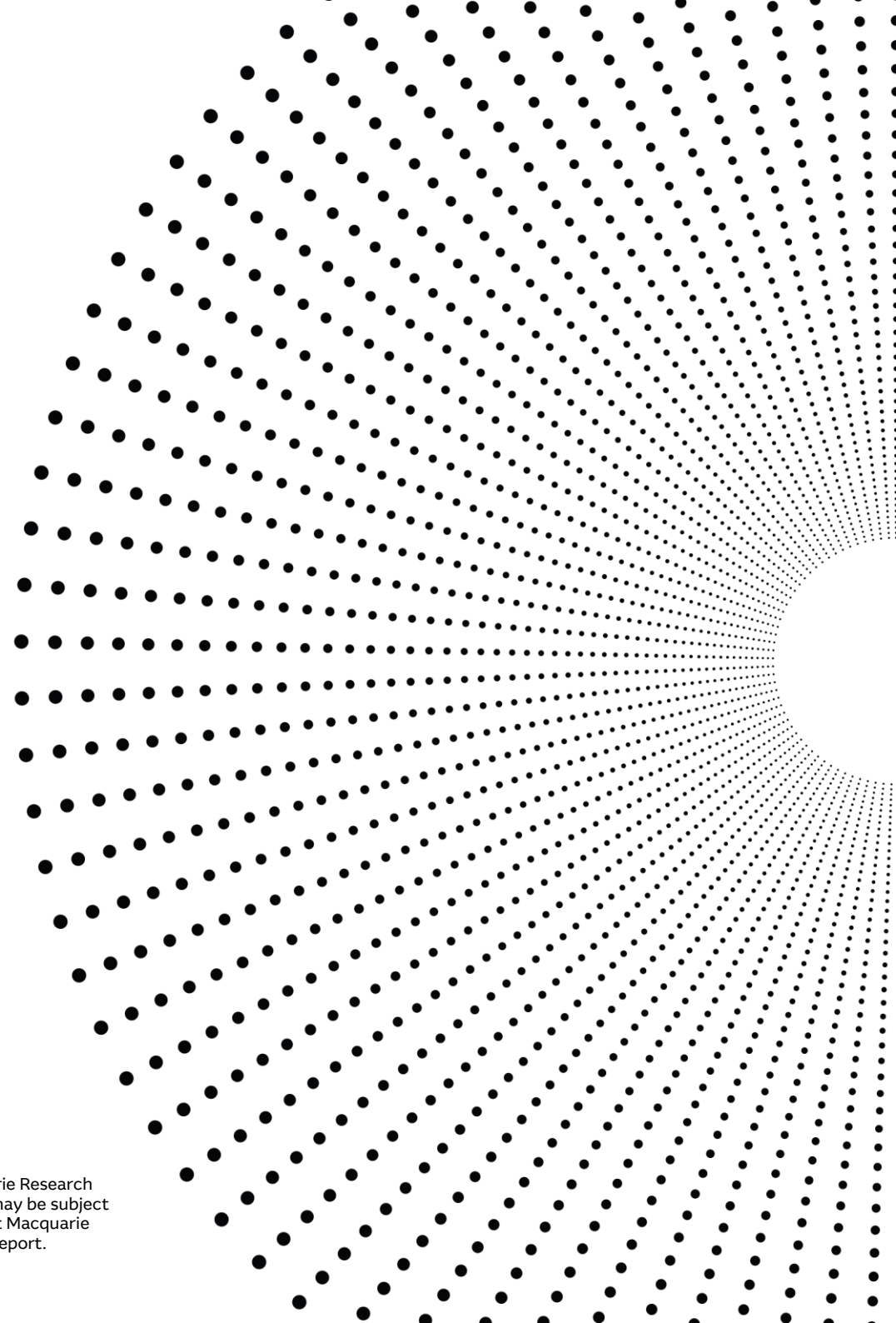
The macro backdrop for commodities markets:

Hope for the best,
prepare for the worst...

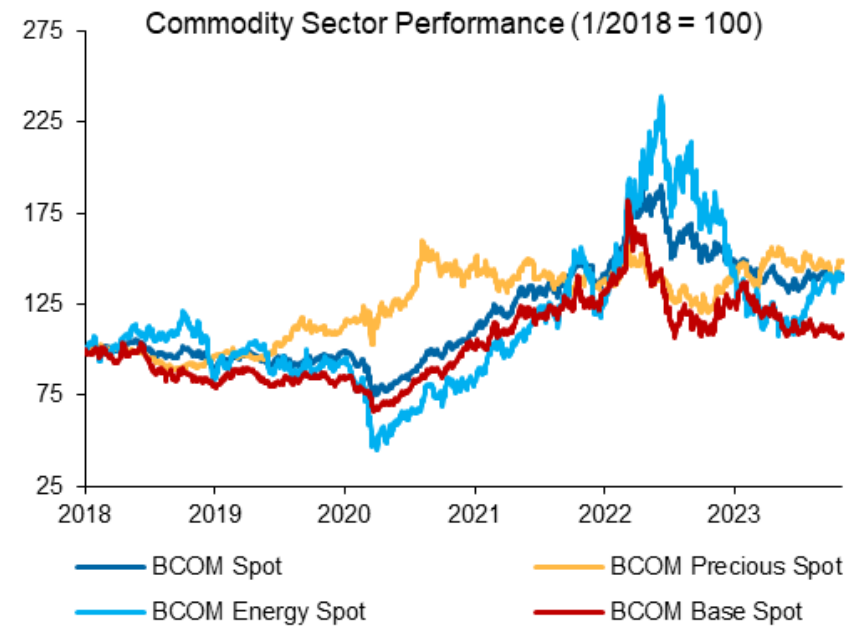
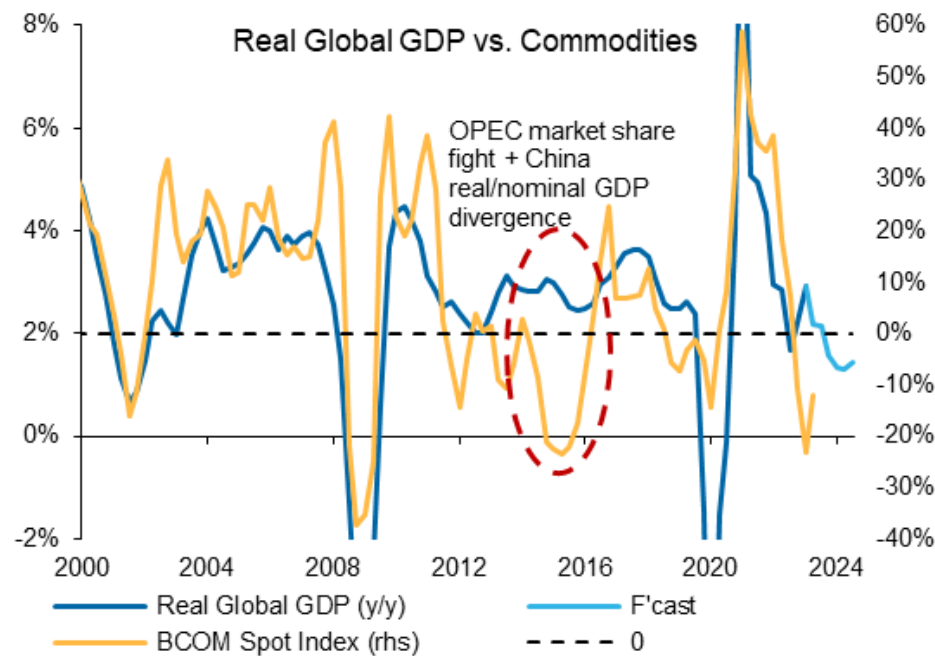
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Head of Commodities Strategy

November 2023

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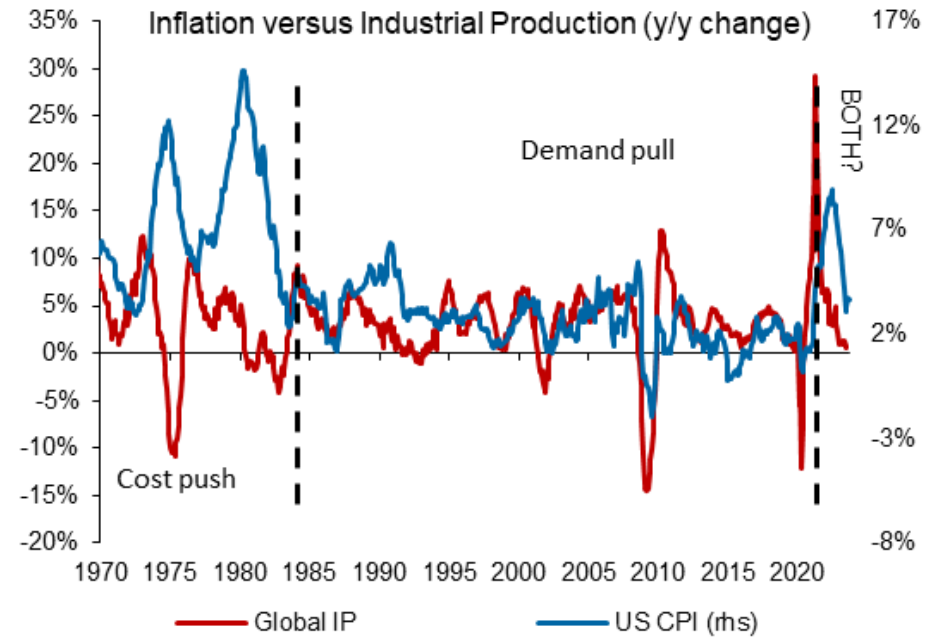
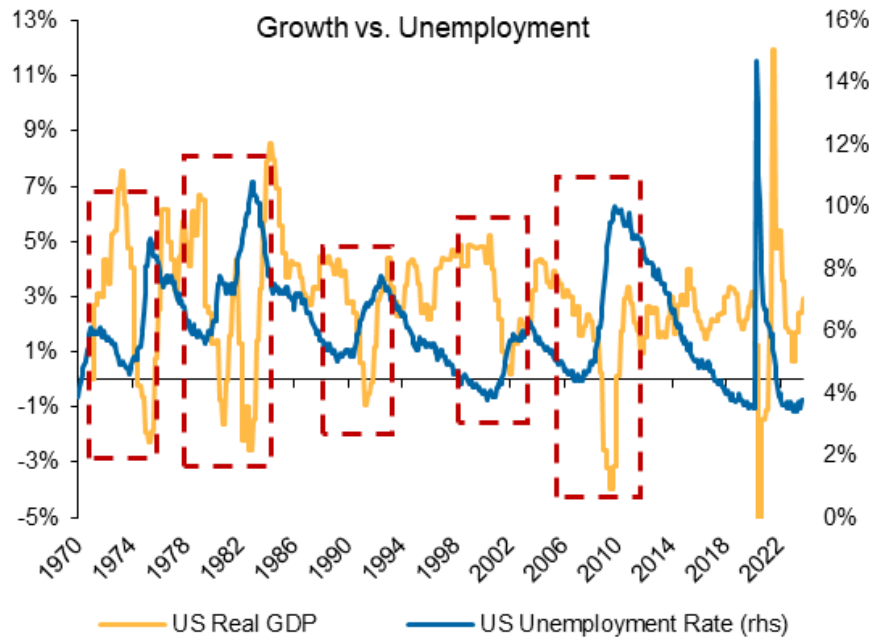


At the aggregate level, commodities appear to have underperformed global growth in the past year. But there are base effects, and a degree of sub-sector divergence, including supply-side differences



Source: IMF, National Statistics, Macrobond, Bloomberg, Macquarie Strategy, November'23

Risks to our base case are evidently two sided, but a soft landing is a tall order if historic precedents are anything to go by



Source: US BEA, US BLS, Federal Reserve, UN, Macrobond, Bloomberg, Macquarie Strategy, November'23

China's growth has disappointed initial expectations but the ~5% growth target is unlikely to be missed

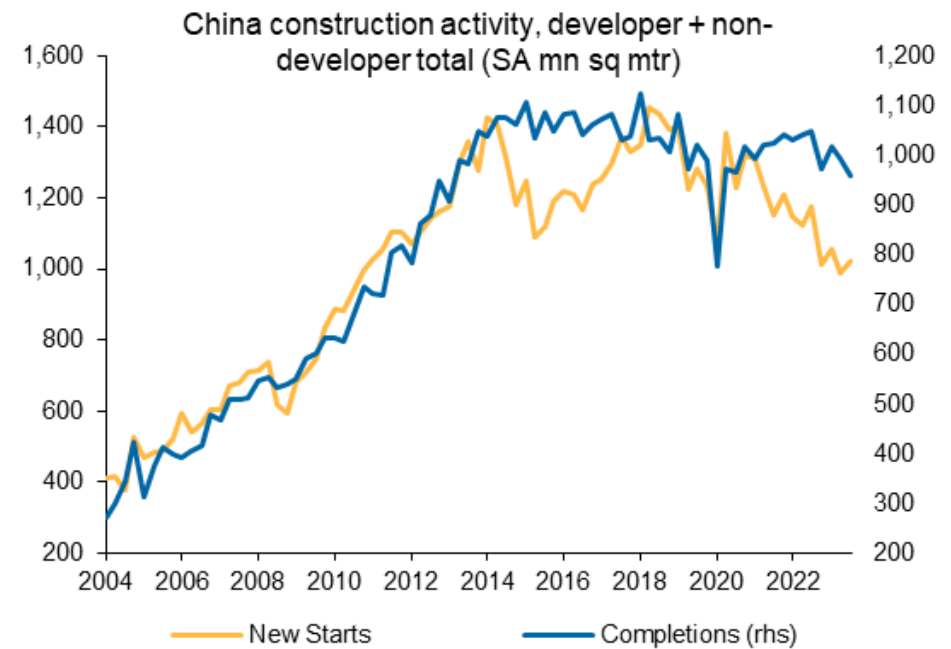
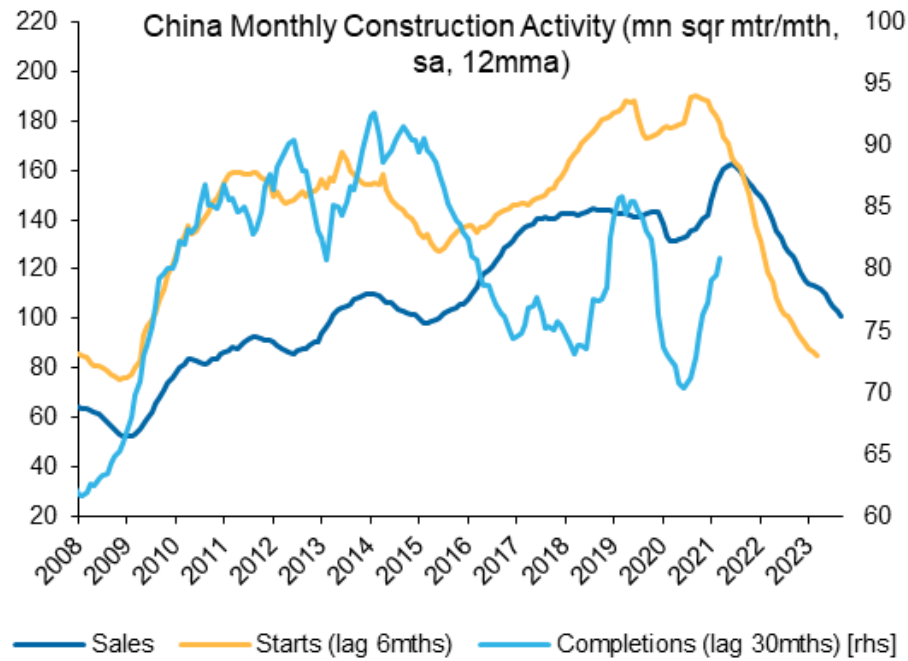
Hitting the 2023 GDP Target Without Meaningful Real Estate Stimulus

Trn RMB	2018	2019	2020	2021	4Q22	2022	1Q23	2Q23	3Q23	4Q23	2023
China Real GDP y/y	6.70%	6.00%	2.20%	8.40%	2.90%	3.00%	4.50%	6.30%	4.90%		5.00%
China Nominal GDP	91.9	98.7	101.4	114.9	33.6	121.0	28.5	30.8	32.0	34.6	125.9
y/y	10.5%	7.3%	2.7%	13.4%	2.9%	5.3%	5.0%	4.8%	3.5%	3.0%	4.0%



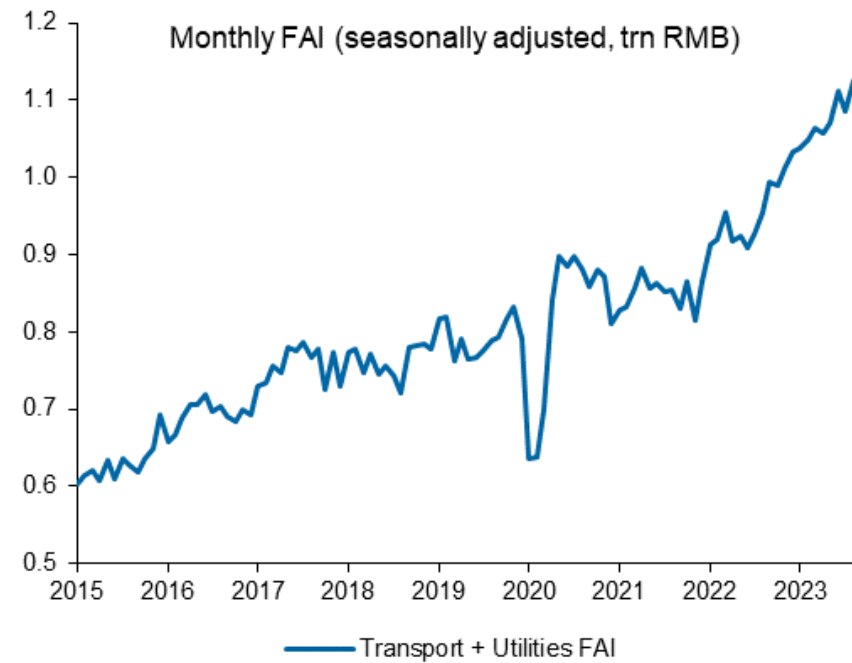
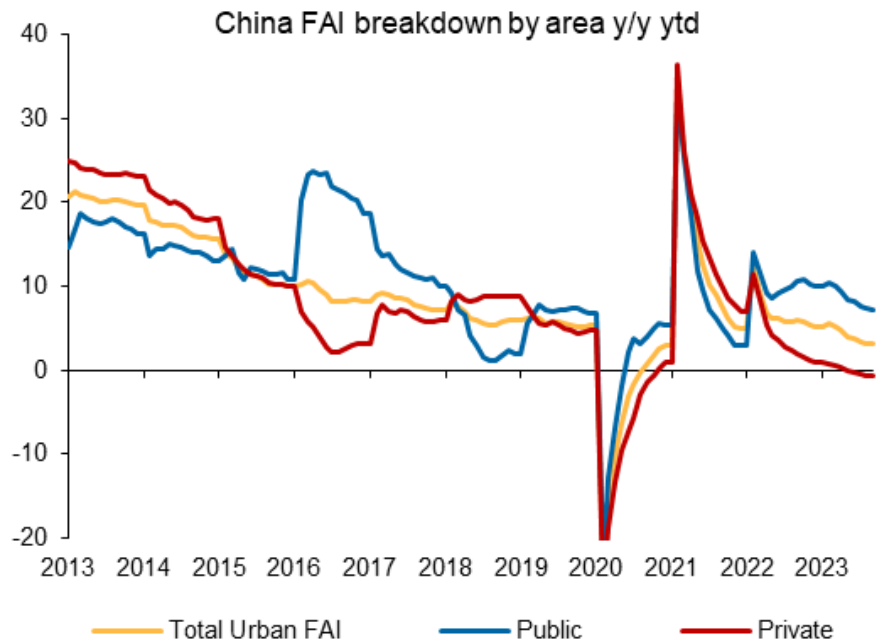
Source: China NBS, Macrobond, Bloomberg, Macquarie Strategy, November'23

Yet given the weakness in China's real estate sector, shouldn't the country's commodities demand have been worse? No, not in our view...



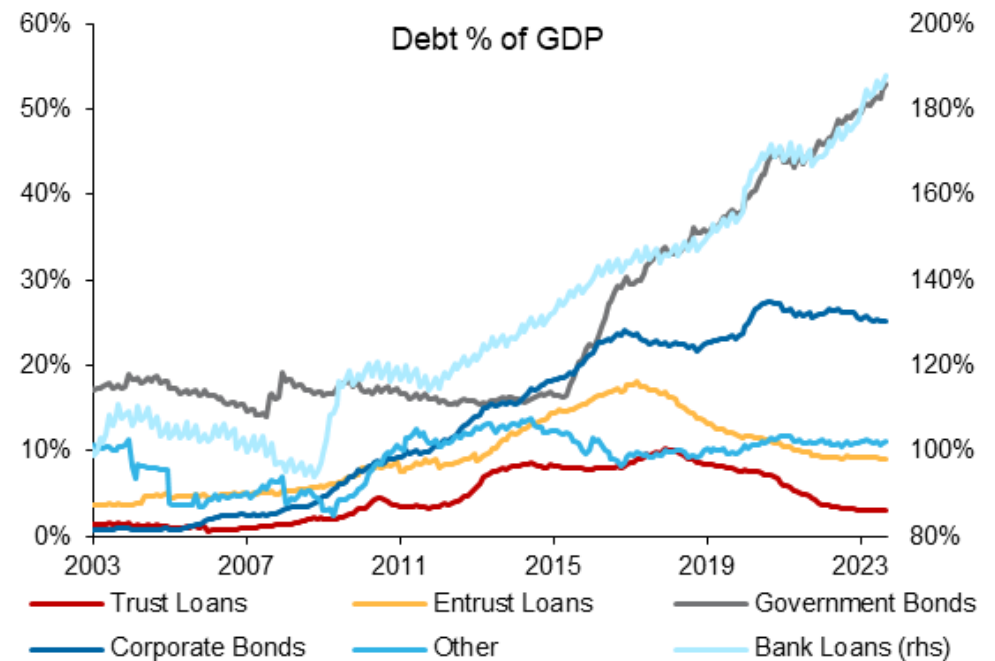
Source: China NBS, Wind, Macrobond, Bloomberg, Macquarie Strategy, November'23

Especially when factoring in that there has been a persistent infrastructure stimulus underway since 2022

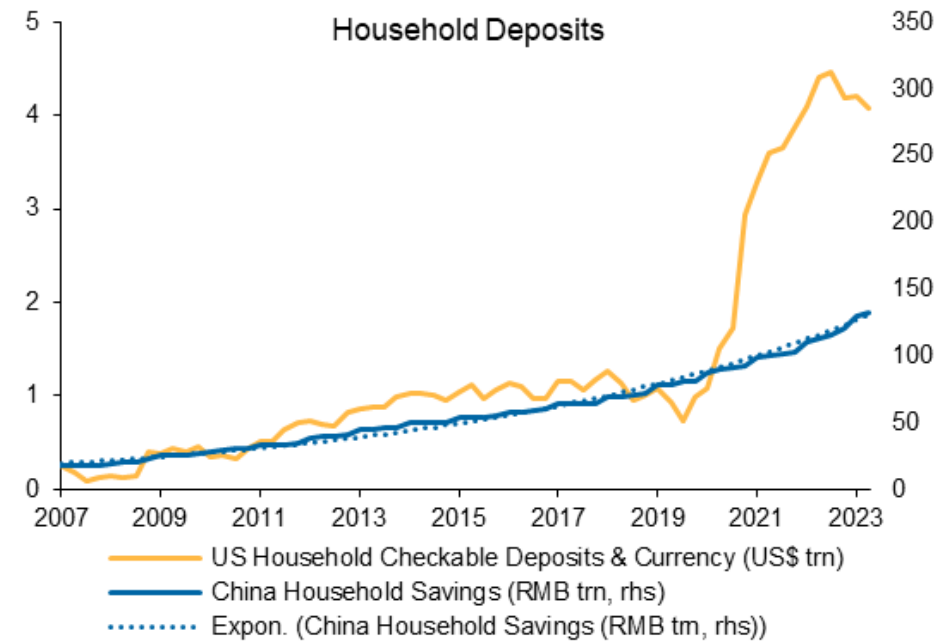


Source: China NBS, Macrobond, Bloomberg, Macquarie Strategy, November'23

But signs of a broader “traditional” stimulus are notable by their absence, with clear reasons for reticence and question marks around the medium-term growth outlook

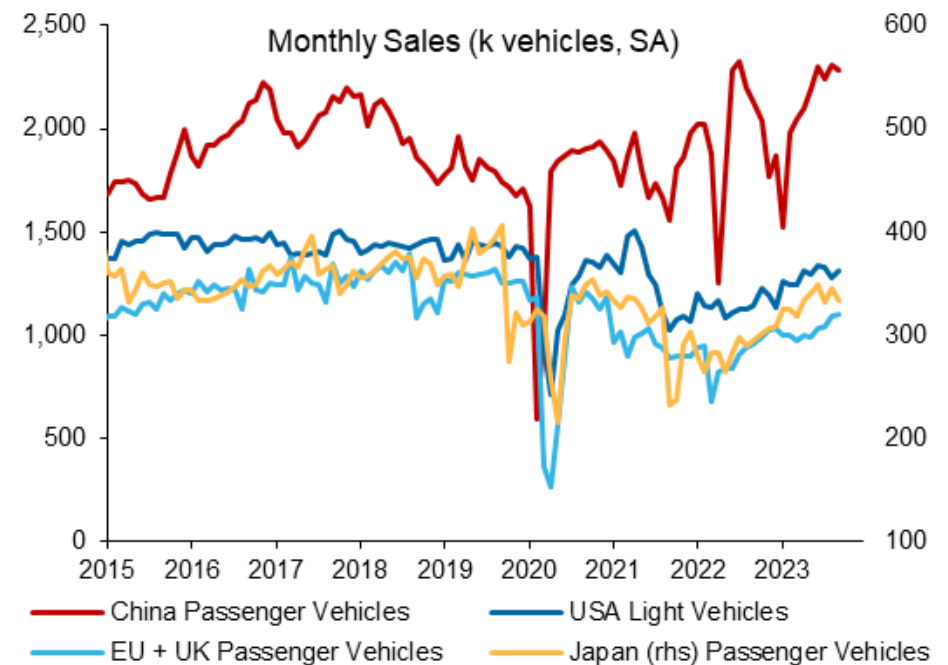
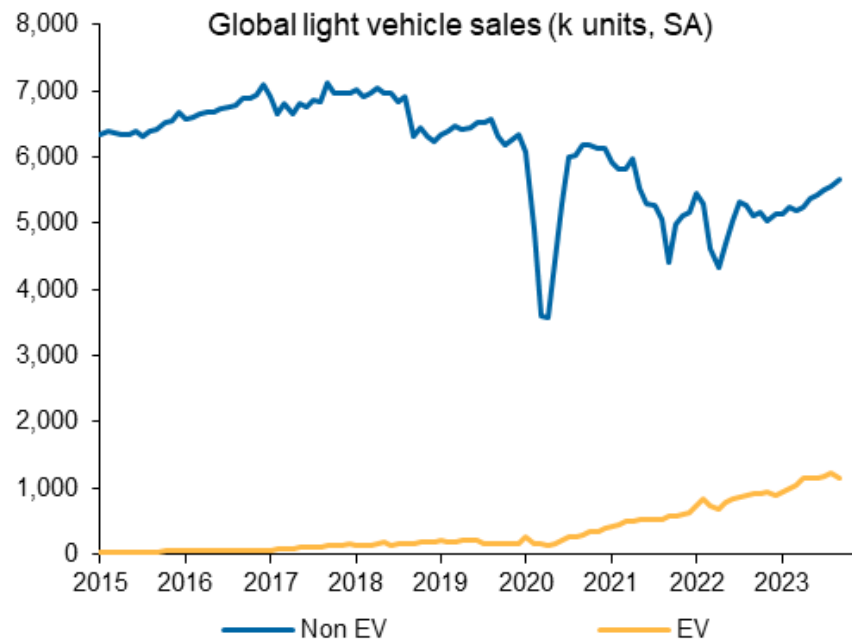


The consumption-savings conundrum is not a short-term cyclical question but a long-term structural one



Source: China NBS, PBoC, Federal Reserve, Macrobond, Bloomberg, Macquarie Strategy, November'23
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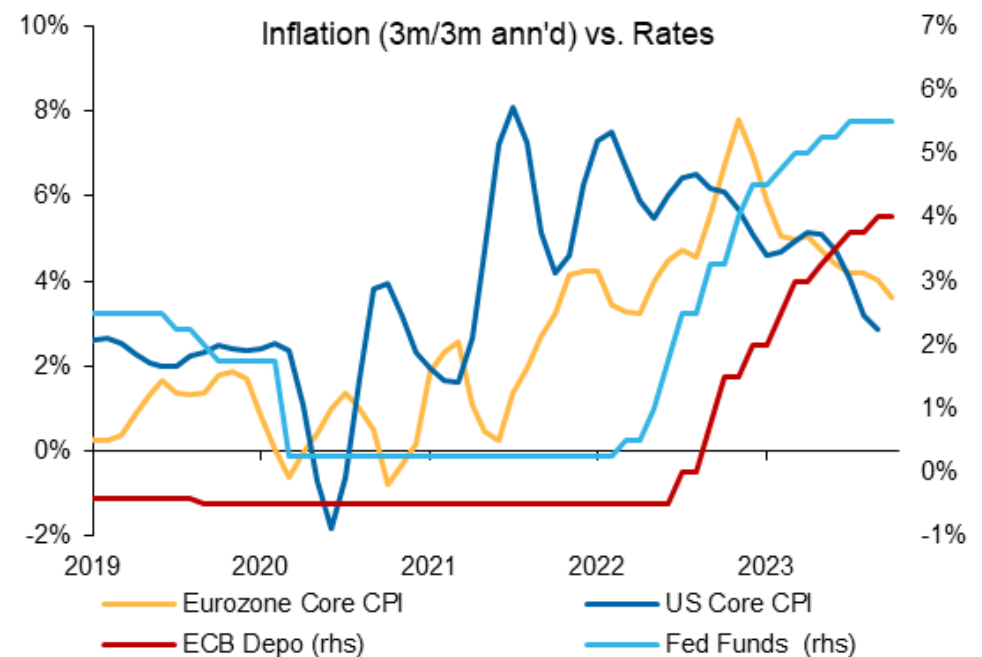
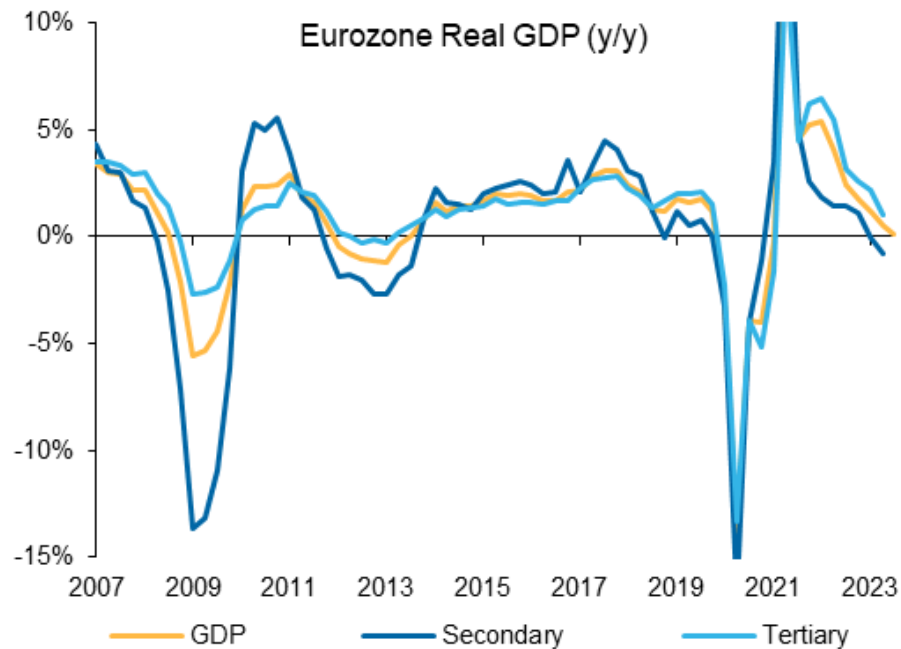
The autos sector has been a source of relative strength, albeit unevenly distributed, and now running into cyclical headwinds



Source: RhoMotion, National Statistics Agencies, Macrobond, Macquarie Strategy, November'23

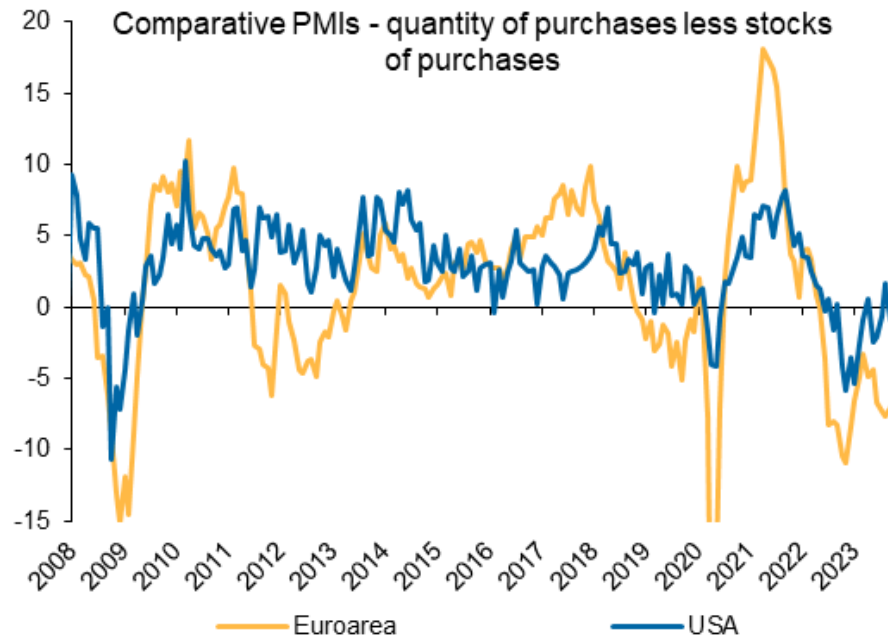
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Amongst developed markets, the Eurozone has been a weak spot, already appearing to be in an industrial recession, with core inflation still limiting the scope for policy easing



Source: S&P Global, Macrobond, ECB, Eurostat, Federal Reserve, US BLS, Macquarie Strategy, November'23

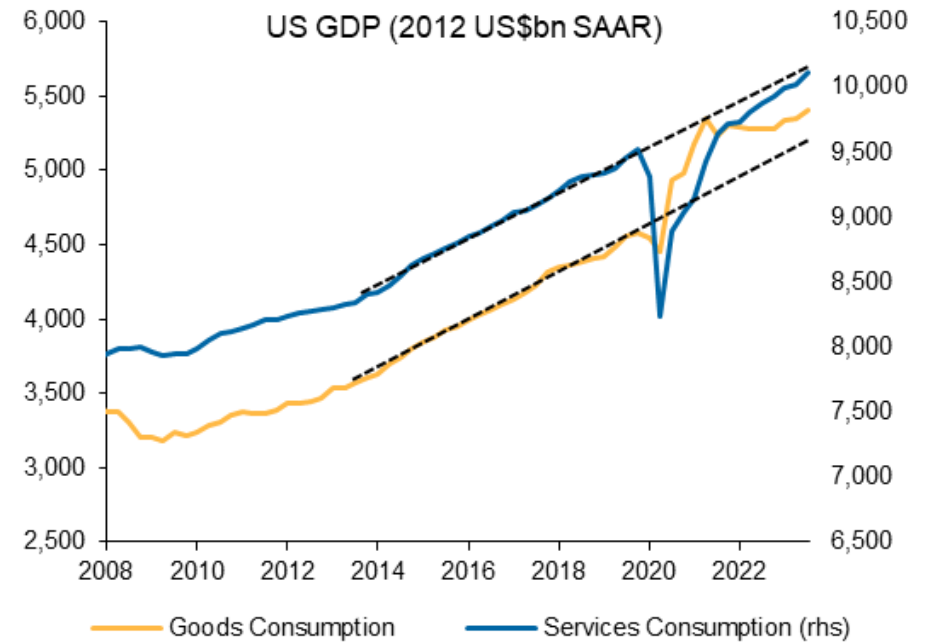
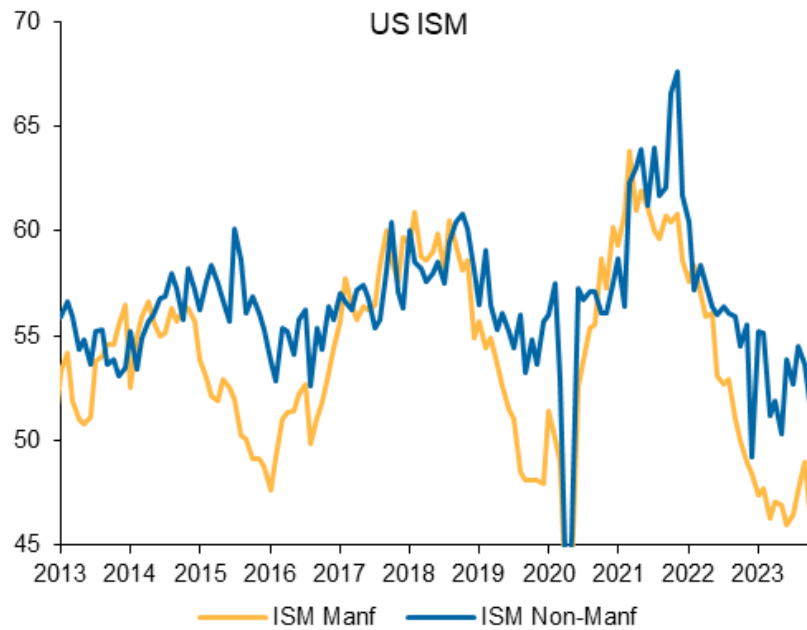
The overall pace of contraction appears to be slowing but the sectoral splits are not encouraging from a commodities consumption perspective



Source: S&P Global, IFO, Macrobond, Macquarie Strategy, November'23

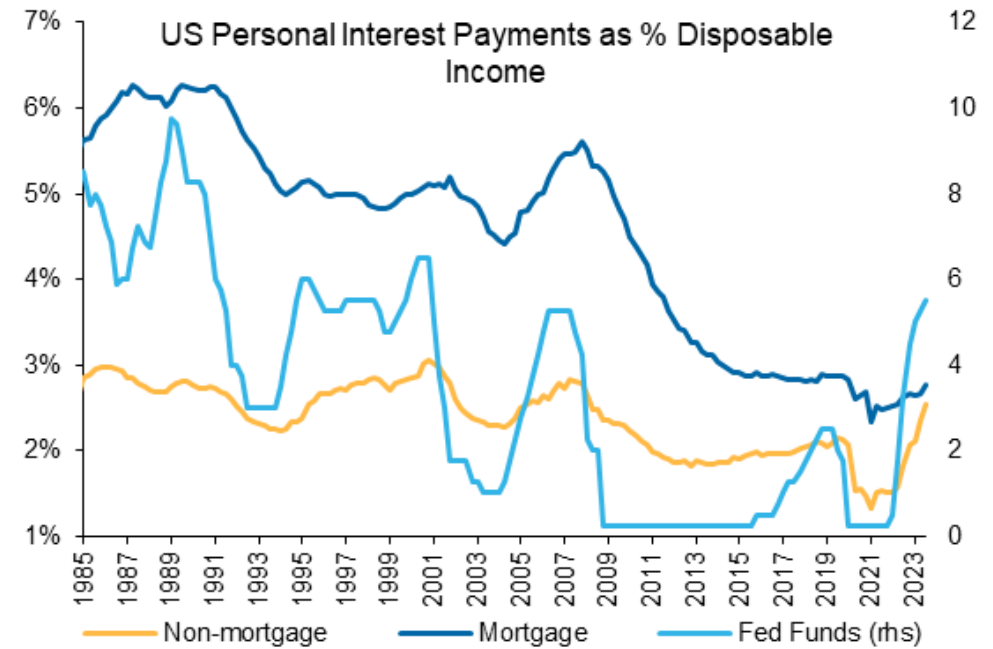
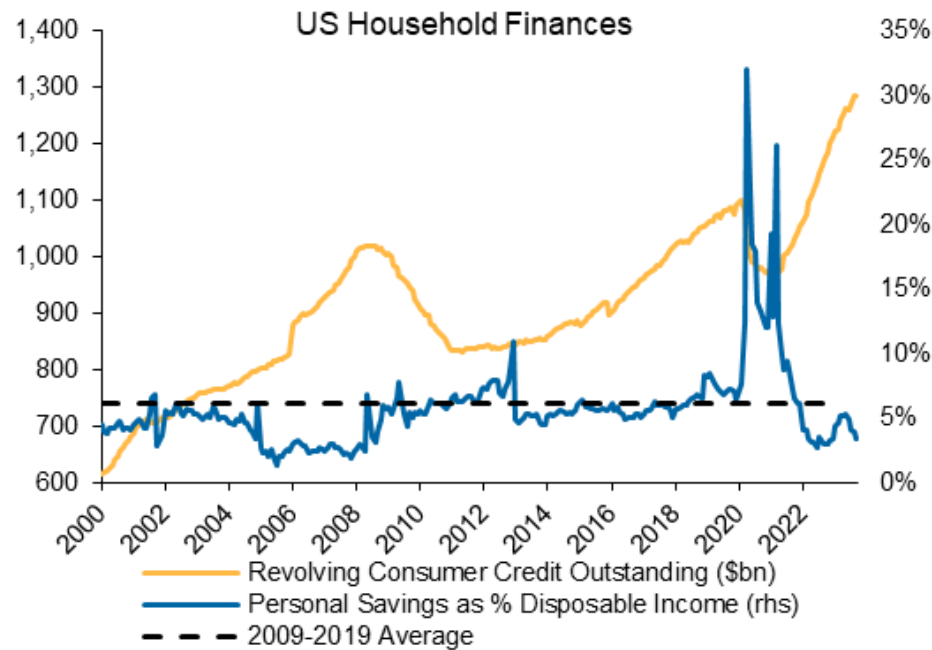
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Manufacturing vs. services divergence is also registering in the US, but end consumption has been resilient across the board



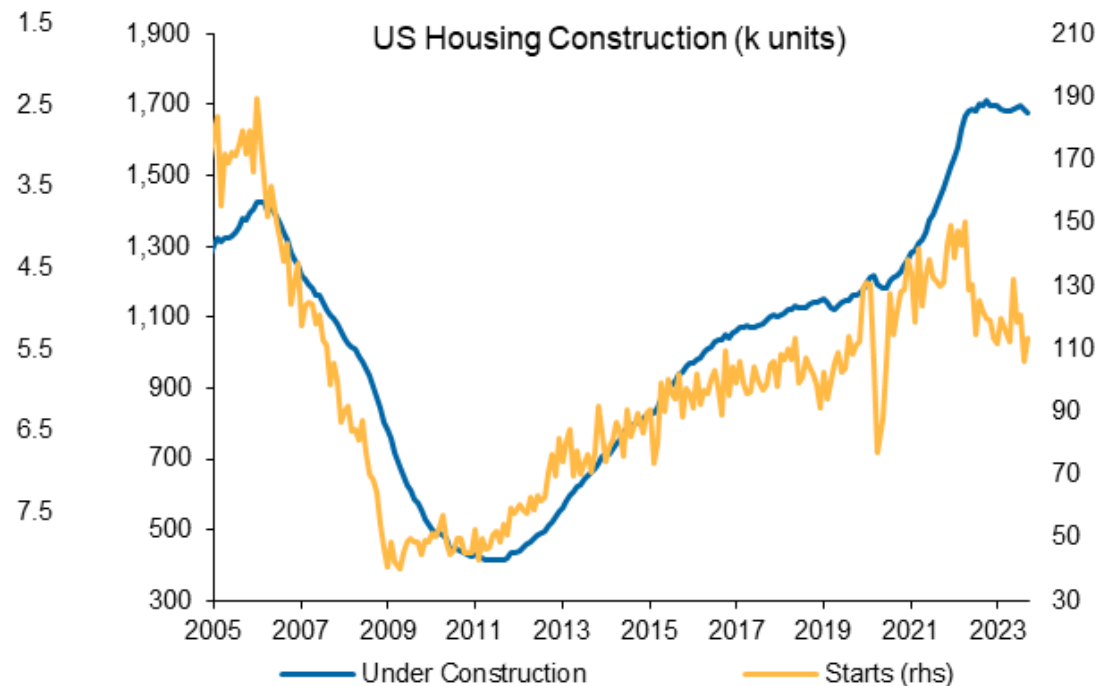
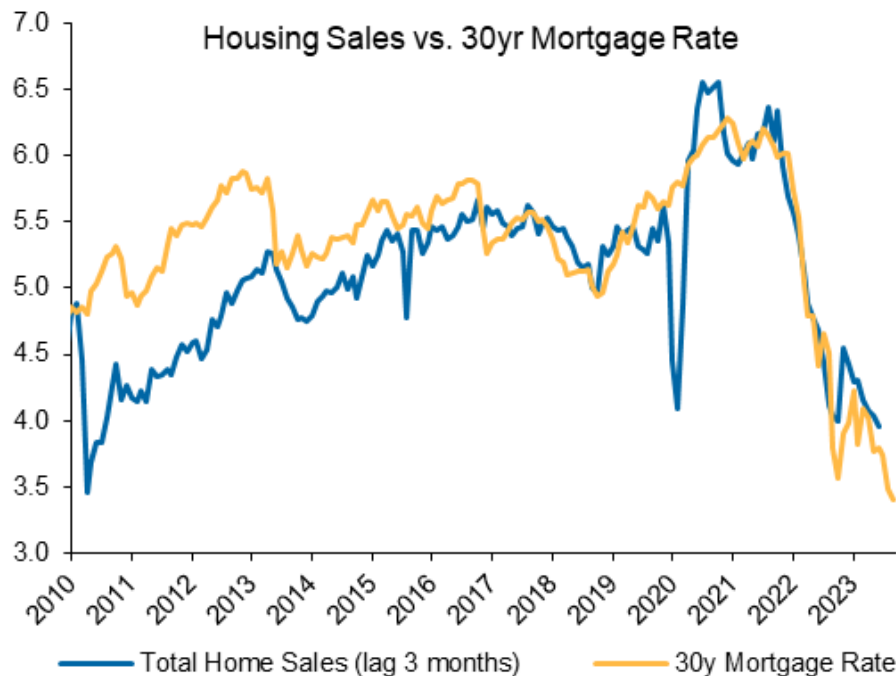
Source: ISM, US BEA, Bloomberg, Macrobond, Macquarie Strategy, November'23

US consumer spending holding up in the face of rising interest rates underlines the long and variable lags of monetary policy tightening



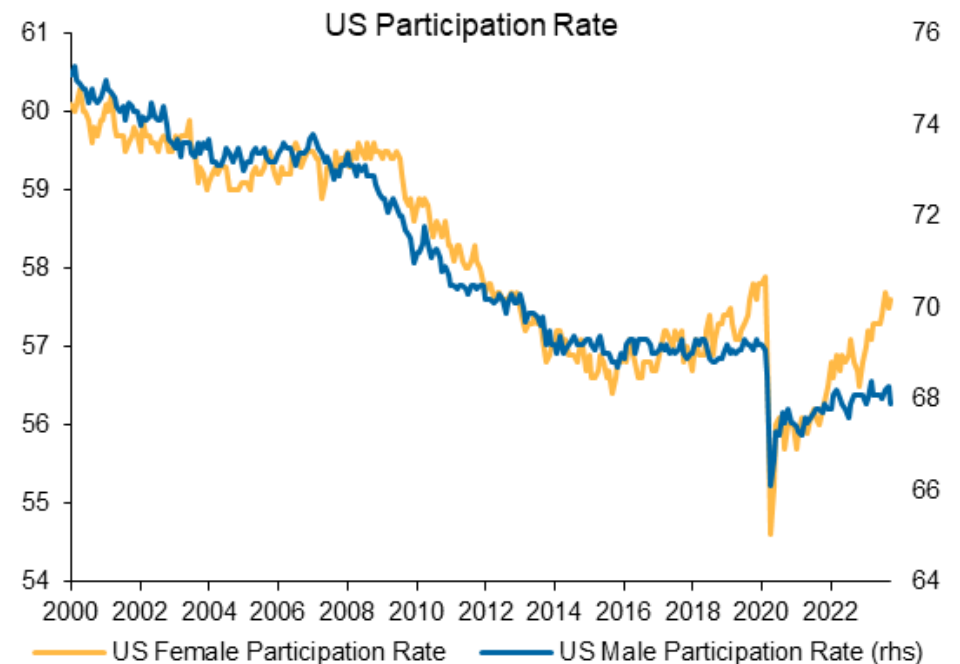
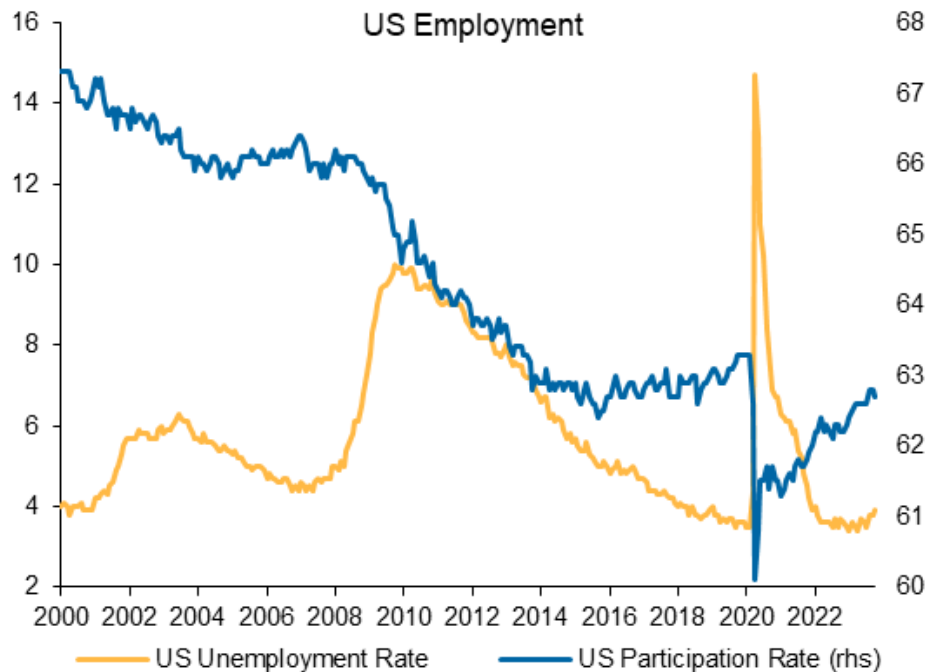
Source: Federal Reserve, US BEA, Bloomberg, Macrobond, Macquarie Strategy, November'23

Rates are already impacting housing sales, but not yet aggregate construction activity, leaving clear catch-down risk



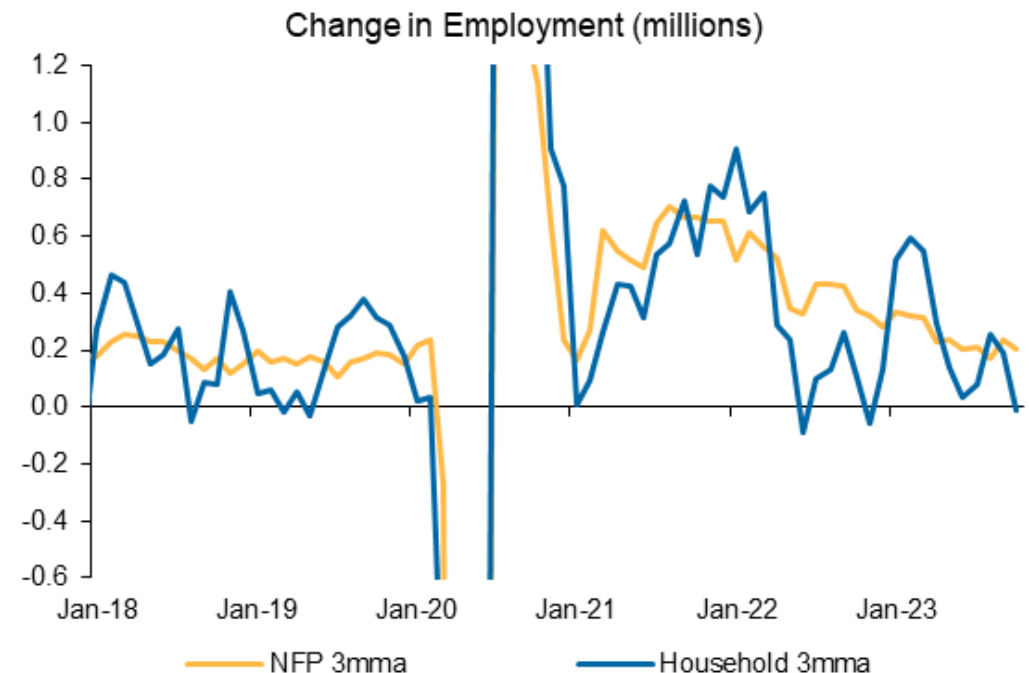
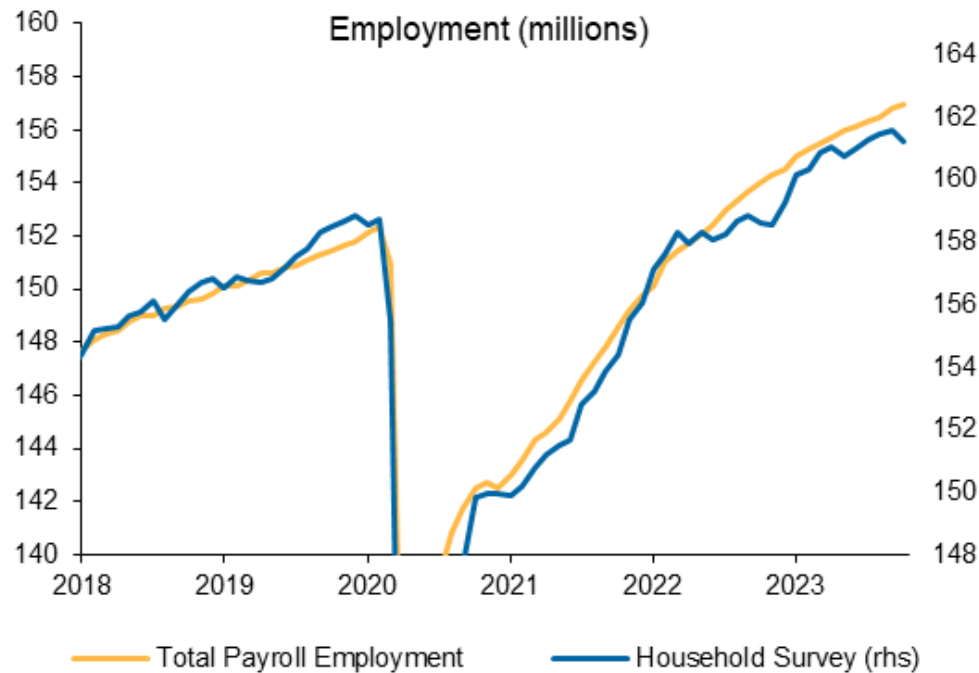
Source: US CB, Bloomberg, Macquarie Strategy, November'23

The labour market remains key to the overall outlook, essentially the challenge of how start a new sustaining upcycle from here. Lifting the participation rate remains possible, but the easier gains have already been made



Source: US BLS, Bloomberg, Macquarie Strategy, November'23

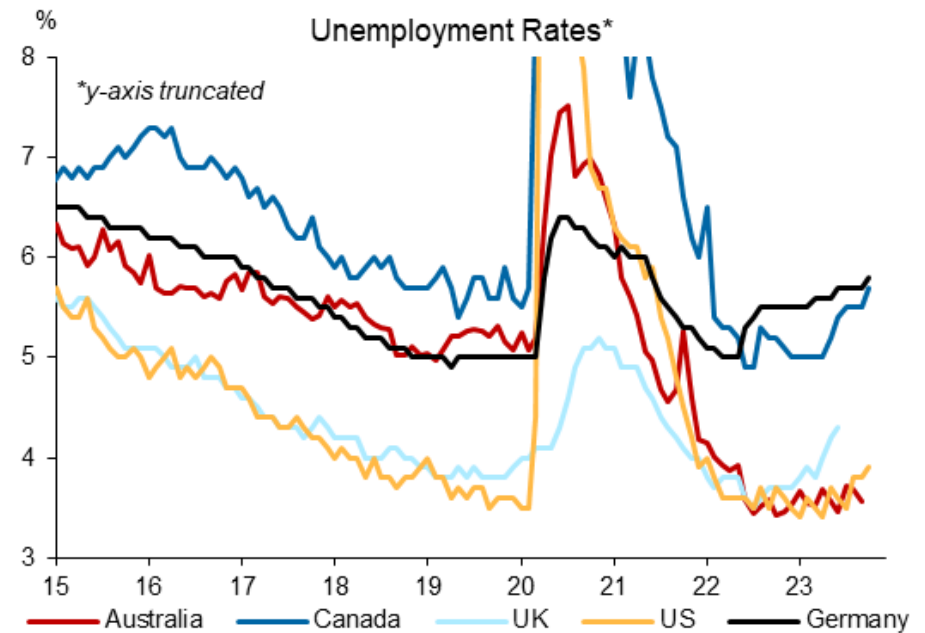
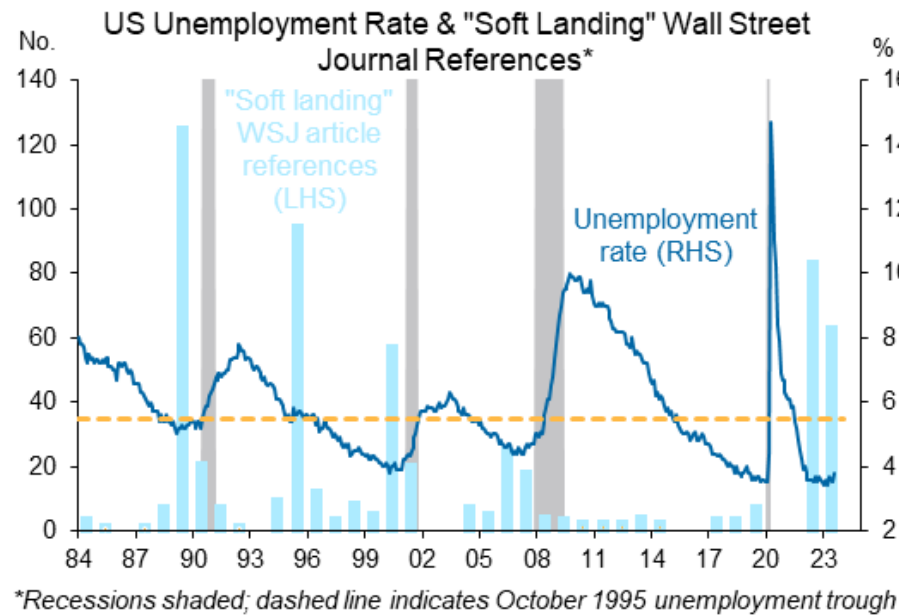
Cracks are appearing but not yet conclusively, with labour market data offering ample scope for confirmation bias



Source: US BLS, Bloomberg, Macquarie Strategy, November'23

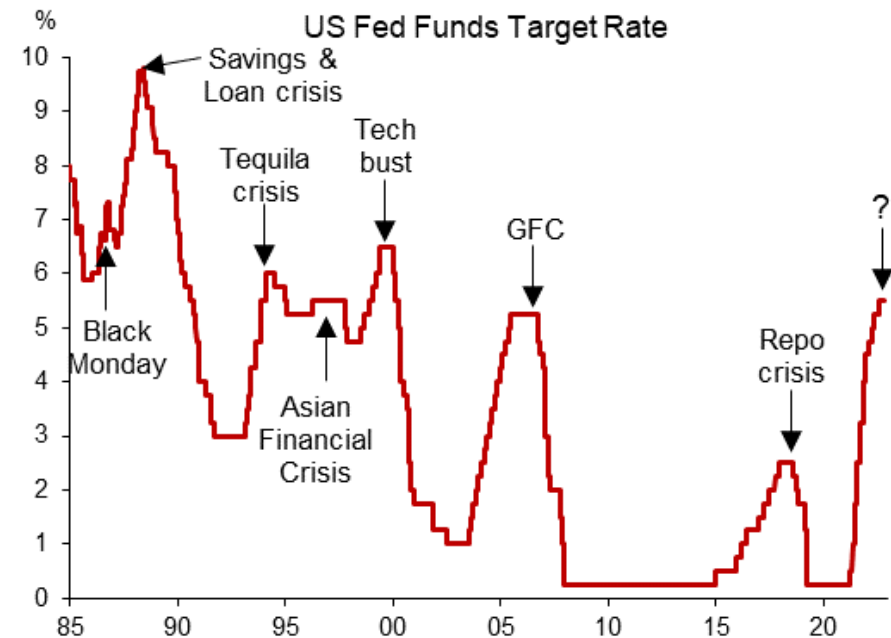
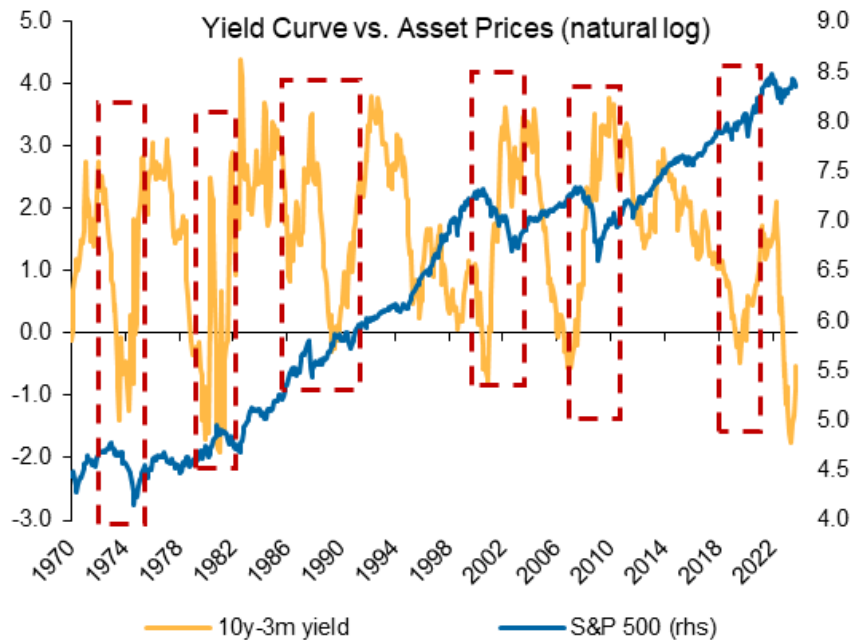
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Unemployment tends not to go sideways, with international comparisons important to watch



Source: WSJ, US BLS, National Statistics Agencies, Bloomberg, Macrobond, Macquarie Strategy, November'23

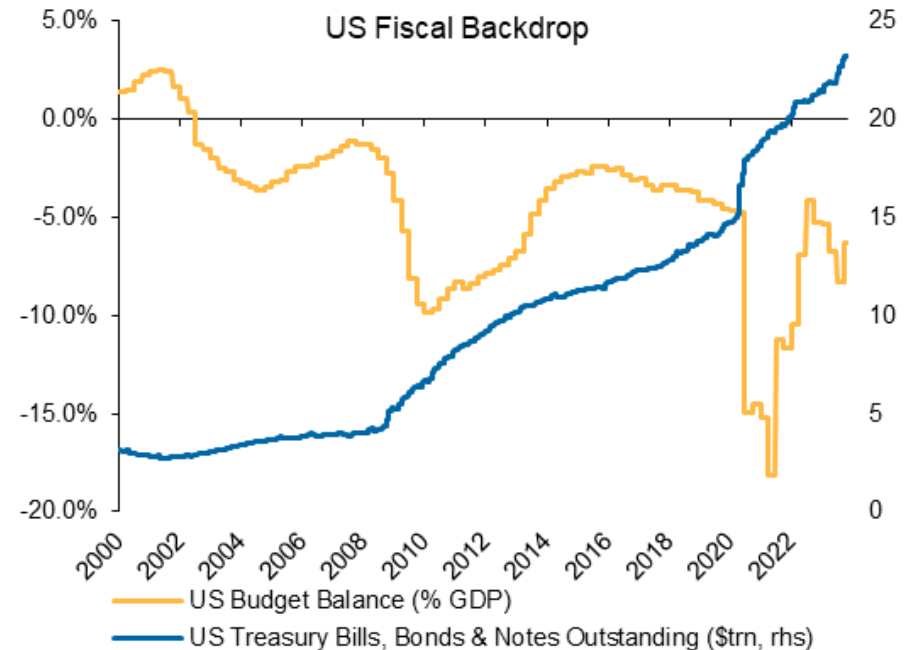
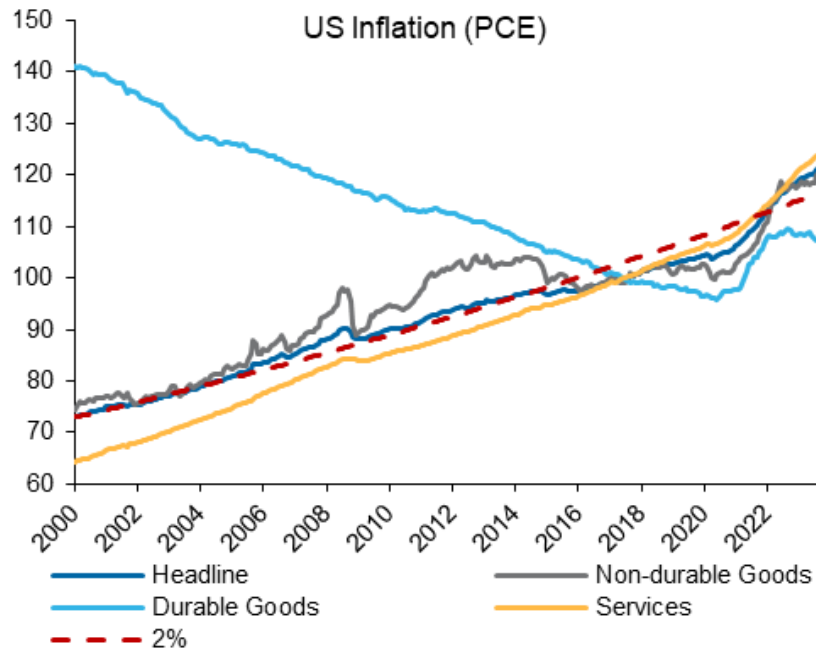
Cyclically, it is the re-steepening of the yield curve that tends to hurt risk markets and, as forecasters, we should remain humble – “it is difficult to make predictions, especially about the future”



Source: Bloomberg, Macquarie Strategy, November'23

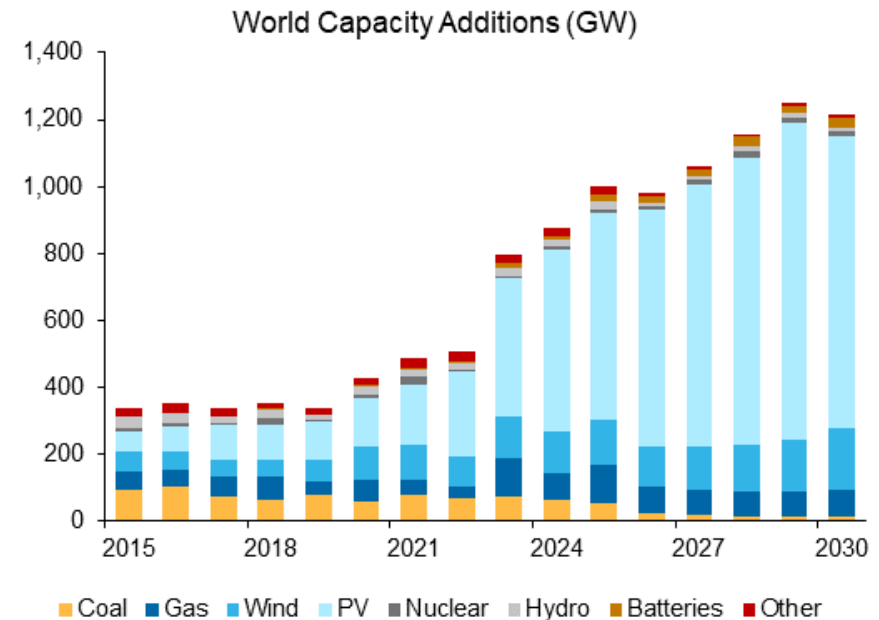
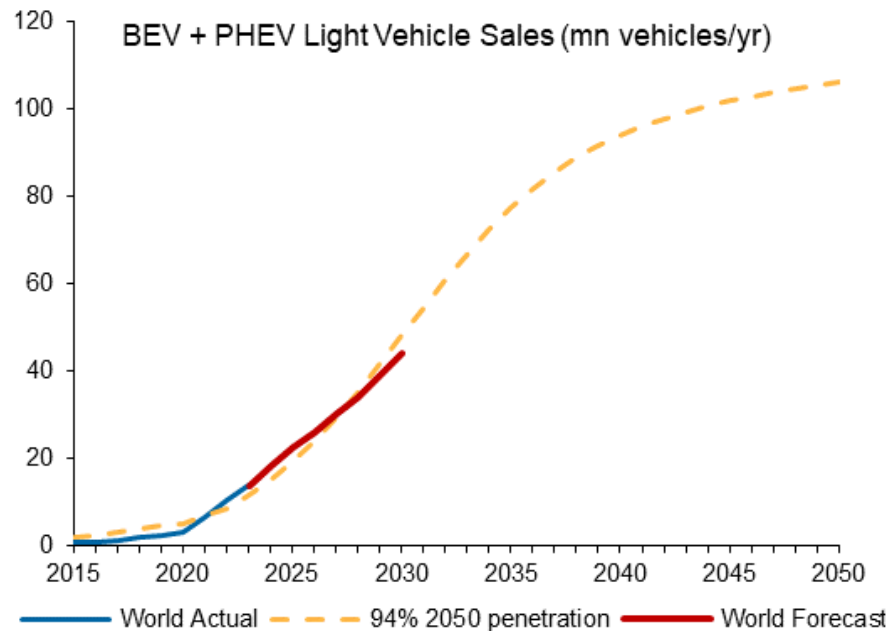
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Once inflation has eased sufficiently for the Fed to ease policy, growth should reaccelerate but there is medium-term uncertainty around where interest rates will settle



Source: Federal Reserve, US BEA, Bloomberg, Macrobond, Macquarie Strategy, November'23

A feature added to by the energy transition, even as it presents a new secular driver for industrial metals demand



Source: National Statistics, Rho Motion, LMC Automotive, Bloomberg, Macrobond, Macquarie Strategy, November'23

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