FINANCIAL MARKETS FLASH

HOW WILL TRUMP'S ELECTION EFFECT METALS?

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On 5 November, Donald Trump was elected 47th president of the United States of America. Although everyone was expecting a close vote, the victory was clear and undeniable, with the Republican party also winning a majority in the House of Representatives and Senate.

Donald Trump's stances on energy, international trade and geopolitics have investors on edge and have triggered aggressive asset reallocations. The dollar and bond yields have risen, and US equities are once again hitting new highs. Europe, however, is lagging behind, dragged down by a challenging political landscape in France and Germany, and by fears that the new US government will impose customs tariffs on products from Europe.

Meanwhile, metals – both precious and industrial – have suffered a steep correction of about 10%. Will they continue to do so? Will the election of Donald Trump undermine the structural trends that support metals?

Gold: a mere dip, rather than a change in course

The markets' first reaction to the election of Trump was a rise in US interest rates. The inflationary risk to the US economy arising from protectionist policies is stoking fears that the US Federal Reserve will revise its target rates. The new president's immigration policy, as well as his economic and fiscal policies, could also drive prices upward.

All this drove the dollar back up. As the dollar is the currency in which commodities worldwide are denominated, this has raised the cost of those commodities for many countries and pushed share prices down.

These pressures may continue in the short term, while the issue of US federal debt is likely to return to the fore. With US debt servicing costs are now over 1100 billion dollars annually, or more than 4% of 2023 US GDP, and with one third of US debt scheduled to be rolled over in the next three years, debt servicing costs could soon exceed 5% of GDP. With growth projected at between 2.5% and 3.0% this year and at about 2.0% in 2025, and with inflation pegged at between 2.5% and 3.0%, the debt trajectory could become unsustainable. Paying down the debt will therefore require lower interest rates. This was the scenario laid out last June in the World Gold Council's Central Bank Gold Survey and also one of the reasons that central banks have cited for their plans to continue buying gold. Another reason is the lack of counterparty risk for gold, which says a lot about their views of other assets on their balance sheets, mainly bonds from the world's biggest economies.

Against this backdrop, central banks acquired record amounts of gold in 2022 and 2023, accounting for about one quarter of the global market. They continued to buy up gold in the first half of 2024. Since then, they have slowed their pace of buying somewhat, but other central banks

have joined the fray, particularly in Europe. The central banks of Hungary, Poland and the Czech Republic, for example, were net buyers of gold in the third quarter of 2024.

As a non-yielding asset, gold has historically risen when yields are low on other asset classes, interest rate in particular. In 2022, PIMCO said it regarded gold as a long-duration1 asset of about 22. That means that a 1% decline in real interest rates has historically resulted in an average 22% increase in gold prices. If this rule holds true, gold's trajectory should, sooner or later, move back up. Chinese New Year festivities could be one trigger of a new upward surge.

Another country that may also have an active role to play in this trend is India, which had long been the world's top buyer of gold, but was overtaken by China in 2012. As gold is not a productive asset, the government has done all it could to limit imports of it, particularly via import duties beginning with this period of time. But this summer the government reversed course and lowered these duties drastically. This had an immediate impact, and gold and silver purchases set records in September. The festival and wedding season are in full swing in India, and as the monsoons went well, the trend could continue. As a reminder, an estimated two thirds of India's gold is bought by farmers.

Last but not least, the US government's reaction to Russia's invasion of Ukraine has dented confidence in the dollar. Countries having thorny relations with the US, such as China, fear that the dollar could become a bargaining chip for the US in the event of a dispute. That's why, for example, the Chinese have preferred gold to the dollar as a safe haven when the real-estate and equity markets have plunged. China's central bank itself sold a record amount of dollar-denominated assets in the first half of 2024.

So, the dollar's short-term rally mustn't be the tree that hides the forest. Debt problems and nascent mistrust of the dollar are structural and sustained problems that are having an impact on gold price trends.

Fossil fuels: an overestimated impact

With his "Drill, baby, Drill!" mantra, Donald Trump is a fervent defender of fossil fuels. This has raised fears not just of a drop in support for low-carbon technologies but also, possibly, a total halt and a move in reverse. Keep in mind that the acceleration of the energy transition and low-carbon technologies is one of the main factors in support of demand and the acceleration in metals consumption, thus raising the spectre of shrinking demand. Similarly, Trump's protectionist policies could undermine global trade.

[1] *Duration is a measure of an asset's sensitivity to interest-rate shifts.*

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Without a doubt, the new US president will be a major supporter of fossil fuel producers. But the question is what impact such support will have on US fossil-fuel production and why.

Donald Trump's goal is clear. The boost provided from developing shale oil and gas production has given the United States and US companies a huge competitive edge over other major countries. Companies are paying less for their electricity than in Europe and Japan, and natural gas is extremely cheap. Trump wants to hold onto this strategic edge for the US economy.

However, there is no guarantee that strong support by the Trump administration will result in higher output. For one thing, current oil output is by far enough to meet demand. In its latest report, the International Energy Agency (IEA) said that oil production is likely to be in surplus by 1 million barrels per day in 2025, despite the decision by OPEC and its allies (within OPEC+) to stick with their output cuts of 3 million barrels per day. Against this backdrop, oil prices are already being squeezed, and there is no guarantee that the US oil sector, which is in private hands, will have any interest in raising output.

The US oil sector, moreover, is facing its own constraints. Since Trump's previous term of office, oil company shareholders, who financed the sector for a decade with little to show for it, began to demand that it switch from productivity goals to profitability ones. That's why, by shale producers' own admission, there will be no return to the growth rates that prevailed prior to 2020 (about 15% annually). This is a key point: US oil companies could produce more but have chosen not to do so. Greater support from the authorities is therefore unlikely to change things. Incidentally, Darren Woods, chairman and CEO of Exxon* said so in a recent interview.

Climate change, energy transition, Paris Agreement: what is the Trump administration's stance?

Donald Trump was clear during his campaign: as soon as he takes office, he will take the US out of the Paris climate agreement. Such a decision would in no way defines a country's climate policy, but it would constitute a very poor signal to send to the world and to energy transition companies.

Will these words be transformed into deeds? Support for such a decision is not as great as it may have been in the past. This was demonstrated by Woods, who has asked Trump not to take the US out of the Paris Agreement. The reasons he cited echoed those laid out by some prominent European bosses, including Carlos Tavares, head of Stellantis*. Woods was calling for a stability in the rules of the game, arguing that a stop-and-go policy undermines US companies' investment capacity.

For example, Exxon* is preparing to invest large sums in carbon capture and sequestration technologies, which is essential to ensuring the oil sector's long-term viability, as well as in

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hydrogen production. Woods also defended the Inflation Reduction Act (IRA), the investment plan introduced by the Joe Biden administration, particularly for supporting the development of US low-carbon technologies.

Will Trump listen to these messages? It's hard to say, but in any case, he will be facing headwinds. The first of these is regulatory in nature. A change or cancellation of the IRA requires Senate approval. Despite the Republicans' majority of 53 senators, such a vote would require a super-majority of 60 senators. As a result, Trump would have a hard time cancelling IRA.

Trump will also have to consider political issues. Much of the assistance rolled out has brought about a resurgence in US manufacturing, which has been a big boost to Republican states. So, he may fail to achieve the support necessary for amending the IRA. Meanwhile, federal support is essential to carbon capture and sequestration technologies, which are necessary for both continuing fossil-fuel exploration and producing green hydrogen (carbon capture and oil refining using hydrogen).

Trump's attitude towards renewable energies is also les clear-cut than in the past. During the campaign, he said was a "fan of solar". So, it is not at all certain that he will roll back IRA, as that would not necessarily serve his interests or those of the US.

Moreover, Trump must be aware that the world is decarbonising, and the technologies for doing so are likely to expand greatly. Like Europe, the US is already far behind China, which has assigned its entire value chain to this goal, whether batteries, solar panels wind turbines, electrolysers and fuel cells. Rolling back support for these manufacturing sectors would be tantamount to leaving the field completely open to Chinese companies, against whom no tariff barriers would be effective if the US was not itself able to set up a viable production facilities for these technologies.

Support is therefore likely to be left in place, with the possibility of adjustments and of leaving some segments, such as wind power, by the wayside. Moreover, the US is still a federal system of government, with a division of powers allowing states that so wish to pursue their own policies. For example, during Trump's first term of office, nothing kept California from pursuing the development of low-carbon technologies.

All in all, the election is likely to have a limited impact on climate-change technologies. Moreover, the AIE's latest studies, such as its *Renewables 2024* report, have found clear evidence that renewable energies are likely to account for just 9% of total capacities installed worldwide from 2023 to 2030.

China, meanwhile, looks determined to pick up its pace in renewable energies and other low-carbon technologies. It is even expected to reach its 2030 goals as early as this year and to continue its efforts. Solar capacities installed, which were already at a record high last year – in 2023, China installed more solar facilities than the entire world, including China, had installed in

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2022 – are likely to rise by another 30% this year. Xi Jinping seems to want to rapidly reduce China's energy dependence by quickly reducing its fossil-fuel needs. China is also the country that each year is installing the most wind turbines and that accounted for 75% of electric vehicle sales in August. In the third quarter, for example, BYD* outstripped Tesla* in revenues for the first time!

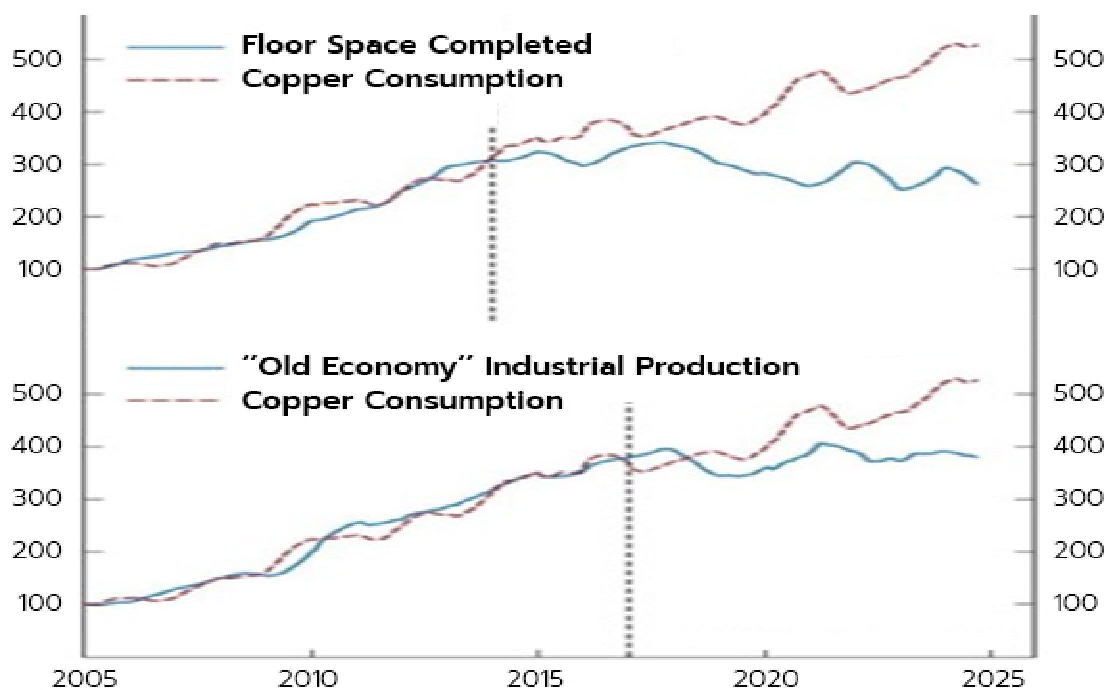
These efforts are beginning to pay off. According to *Carbon Brief*, in September, China's CO2 emissions shrank by 1%, thanks to the steep rise in renewable energies.

Industrial and precious metals: a cyclical dip

As with gold, the dollar has been main driver of the recent decline in industrial metals. Another driver were the disappointed reactions to the Chinese government's stimulus plan, which was very vague on support for consumption.

But the figures are clear: consumption depends less and less on consumption in traditional sectors and more and more on the accelerated development of low-carbon technologies. As this chart shows, copper consumption, for example, is tied less and less to changes in traditional sectors of the economy.

Change in copper consumption in China, by sector (base 100: in 2005)



Source: Alpine Macro, November 2024

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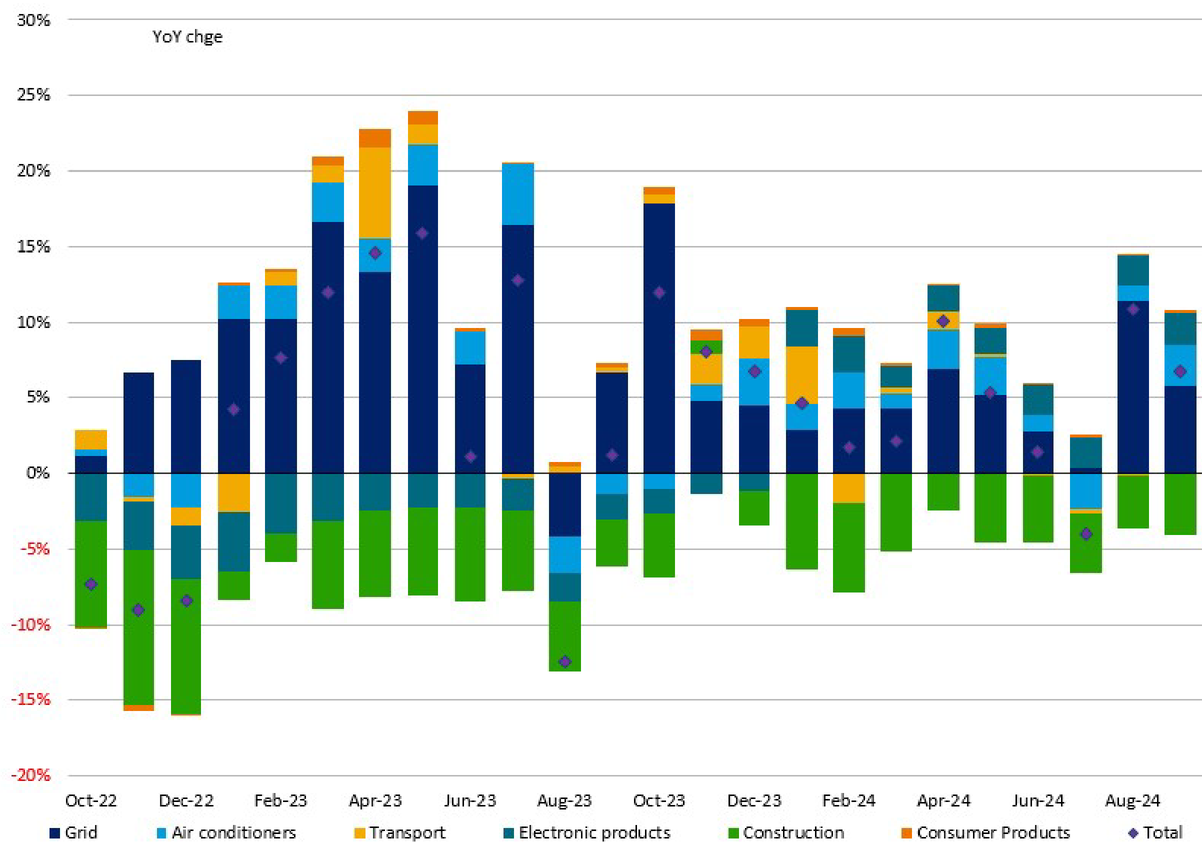
This is the case in particular in China, where, despite a stubborn slowdown in construction activity, expansion of the grid and renewable energies are driving demand upward.

Change in copper consumption in China, by sector (as a %)



Sources: Bloomberg, Bank of America, November 2024

Much the same applies to silver, as well. In its latest market update, the Silver Institute reported that the market would be in deficit this year for the fourth consecutive year, and to a historic degree. This is in spite of a steep drop in investment demand and is due to the all-time high increase in manufacturing demand, due, in turn, mainly to the acceleration of photovoltaic energy and electric cars, both of which are big consumers of silver. The Silver Institute expects the deficit to continue in coming years.

And, lastly, metals continue to be subject to intense geopolitical wrangling. The latest episode was the spike in aluminium prices on 15 November, after the Chinese government announced the end of export tax rebates. China is by far the world's largest aluminium and one of its main exporters, with 5.2 million tonnes, or 7% of the world market.

The uncontested election of Donald Trump brings with it lots of uncertainties, particularly for the financial markets. The dollar's gains have exerted short-term pressure on both industrial and precious metal prices. But debt problems are more pressing than ever, and the question of debt sustainability is likely to return soon to the fore.

Meanwhile, Donald Trump's second act is likely to have a limited impact on US low-carbon technology policies. This impact should be further limited by the relative autonomy in which US states operate, along with the support from both companies and the public sector.

The structural drivers of metals, led by the energy transition, as well as the digital transition, should soon return in force and provide upside support for metal prices, given the structural imbalances in both supply and demand.

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