

# Commodities Unbound

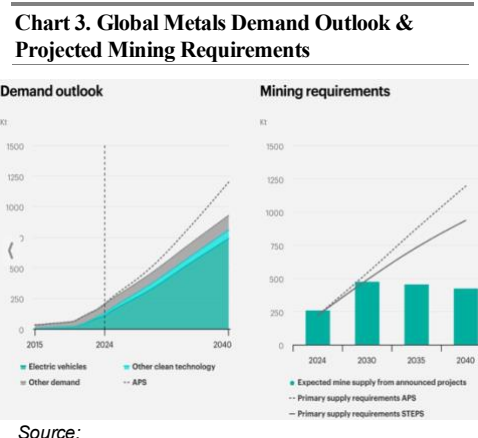
## Supply Shocks, Geopolitical Demand, and Rising Transition-Metal Floors

- Structural scarcity has superseded financial headwinds in the copper market, as the Grasberg force majeure and cascading Latin American disruptions has instantly inverted the projected 2025 balance sheet from surplus to deficit
- State-drive Chinese soybean purchases have introduced a geopolitical premium to grain markets, temporarily overshadowing bearish inventory fundamentals
- Structural deficits in copper and lithium are hardening price floors, creating resilience against cyclical macro weakness as supply constraints bite.

The industrial metals complex effectively severed its macro correlation this week, as physical panic drove the LME Copper cash-to-3-month spread to a massive \$249/tonne backwardation, the widest since 2021. This dislocation stems from the Grasberg force majeure, which Goldman Sachs estimates removes 525,000 tonnes of copper through 2026, flipping the 2025 market balance to a 55,500-tonne deficit. Crucially, this triggers a “polymetallic contagion”: combining Grasberg’s outage with the stalled Cobre Panama mine removes ~1.7 million ounces of gold and 7.8 million ounces of silver from annual supply, creating a “shadow deficit” that provides a structural floor for precious metals independent of Fed policy. This supply rigidity is amplified by the fact that primary-production silver mines, accounting for only 28% of global output, cannot bridge the gap left by these massive base metal outages, forcing refiners to draw down inventories to critically low levels.

Geopolitics is increasingly shaping agricultural commodity markets, often overshadowing fundamentals such as yields and planting cycles. Soybean futures rose approximately 3% this week after China purchased 1.6 million metric tons of U.S. beans, the largest buy in two years and a clear signal of commitment to the recent trade truce. China’s willingness to pay \$2.15 to \$2.40 per bushel above January CBOT futures, roughly twice the Brazilian premium, and to clear reserve space for U.S. cargoes underscores that its buying is driven by strategic alignment rather than cost efficiency. While concentrated demand can spike prices quickly if China fulfills this commitment, follow-through is far from guaranteed. High stock levels and weak crush margins could limit real demand, making it essential for investors to treat this recent purchase as a political signal rather than a confirmed trend reversal. Traders remain skeptical of sustained momentum, noting that this flurry of activity likely represents a strategic stockpile ahead of potential January tariff escalations rather than a recovery in fundamental consumption.

This geopolitical volatility in soft commodities stands in contrast to the transition-metals complex, where structural demand floors are hardening despite the softer near-term macro environment. Transition metals markets continue to show structural resilience, with battery-grade lithium carbonate in China recovering to 92,300 CNY/tonne and copper futures holding firm around US\$4.99/lb. This strength is underpinned by shifting fundamentals; the International Copper Study Group projects a swing from a 2025 surplus to a 150,000-tonne deficit in 2026, while lithium demand is forecast to hit 1.8 Mt LCE next year, driven by grid-storage demand. These metrics confirm that supply constraints, specifically declining ore grades and limited project pipelines, are overriding cyclical weakness. Investors’ focus now shifts to next week’s Chinese industrial production data to validate whether this structural demand floor can withstand year-end liquidity pressures. Crucially, this floor is solidified by the reality that current prices remain below the \$11,000/tonne incentive price required to sanction greenfield projects, guaranteeing that the supply pipeline will remain constrained through the medium term.



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