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Quarterly Outlook:

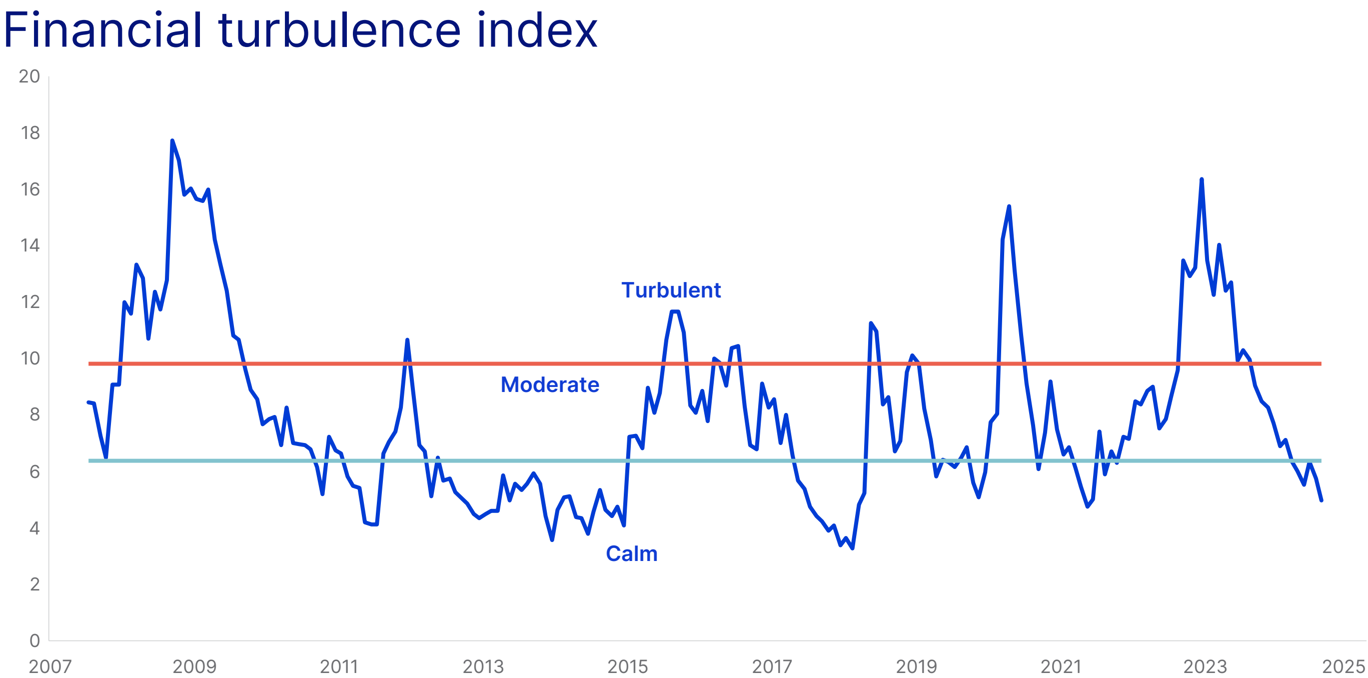
The US rate cut cycle has begun

By Peter Garnry, Chief Investment Strategist

Small signs of fragility but no panic

The setback in equities and in particular technology stocks in July and early August as the Japanese yen carry trade came to an end due to the Bank of Japan's pivot on monetary policy was a small sign of market fragility. Combined with some weak US macro figures on the labour market and inflation, the market began shifting its stance on the Fed policy trajectory, pricing in an aggressive rate cut cycle through the summer of 2025. Volatility spiked for a while before calming down again to normal levels. Maybe it was a sign of what is to come if a bigger rotation is set in motion.

Despite the small hiccup in financial markets in the third quarter, our turbulence index, which measures the degree of dislocation between key asset classes, remains low. This degree of market calm, if sustained, suggests a positive outlook for risky assets.



Source: Bloomberg and Saxo

Recession or no recession in 2025?

In the fourth quarter, financial markets will focus on key events such as the Fed's rate cut cycle and the US election. While both events are important, the real question for equities in the medium-term remains whether the economy is slipping into a recession in 2025. Based on the factors listed below, the probability of a recession starting over the next year is still low, but not insignificant, and we set the probability at 25%. However, the lagged impact from higher interest rates is still the big unknown variable in the recession equation and thus the 25% probability reflects a likelihood above normal.

- US real-time indicators suggest trend growth around 2% real GDP growth
- Financial conditions remain loose relative to economic activity
- The capital expenditure boom in technology and health care continues
- Equities at an all-time high and minimal funding stress in high yield bonds
- High-frequency US job posting indicators have stabilised since May
- US nominal GDP was 5.9% YoY in the latest reading
- European real-time indicators suggest remains weak
- Wage growth remains elevated in both the US and Europe

Despite pockets of weakness in the economy our overall assessment is that the economy has slowed but is not slipping into a recession just yet, and we think it is premature to significantly rotate investment portfolios into defensive sectors.

Rate cut cycle and US election will dominate macro in Q4

The fourth quarter will be dominated by debates over the pace of the US rate cut cycle and the upcoming US election on November 5. The two rate cut cycles in 2000 and 2007 have anchored investor belief that this rate cycle will also be the beginning of a recession. It is important to consult more than just recent history for guidance. Yes, the current pricing of the Fed funds rate over the next 12 months is more or less consistent with previous rate cut cycles in a response to a recession, but if we adjust for the inflation rate, the current pricing is closer to that of merely shifting the level lower to reflect lower inflation pressures. Second, past rate cut cycles have mostly been positive for equities with only the 1973, 2000, and 2007 rate cut cycles being the exceptions. While rate cuts are important signals to investors, our view is that investors should remain positive and instead rethink whether their portfolios have the right ingredients as the Fed lowers its policy rate.

This year's US election is probably the most important election in modern times. With US political bifurcation at its peak, the election outcome will have impact both on the economy and financial markets. Of the more likely scenarios, a Harris gridlock win (Harris as president, but lacking control of the Senate) is probably the worst for economic activity as the fiscal impulse will likely shift to being negative as a gridlocked US Congress will make it difficult to pass anything except for executive orders over the coming years. Another scenario is a Trump sweep victory with Republicans winning both houses of Congress. This scenario will have a high positive impact on Europe's defence industry and likely a negative impact on technology and emerging markets from Trump's ideas on high tariffs.

A Trump gridlock scenario is also possible, in which he wins the presidency and the Republicans take the Senate, but fail to take the House. In this scenario, you get both the gridlock and fiscal impulse decline, but also new high tariffs.

Investment allocation

Every investor's investment allocation is unique because of individual risk preferences and return objectives. To eliminate human biases it is always good to get the high level picture on asset allocation based on statistics. The current regime is like in Q3 which is a calm turbulence index and inflation still running above the Fed's target of 2%. Based on periods of similar regime since 2007 we can calculate annualized returns across key asset classes, which can guide investors on how the various asset classes have done in the past in a similar regime.

Asset class returns

Current regime: calm financial markets and high inflation

Asset class	Average annual return (%)
European equities	16.4
US equities	15.8
Emerging market equities	11.8
European government bonds	3.6
European corporate bonds	6.3
Commodities	4.5
Cash equivalents	1.6

Source: Saxo
* Average annual return figures represent the annualised return in the periods since May 2007 with calm turbulence environment and inflation above the ECB inflation target of 2%. This information is meant as objective facts that can help investors in their asset allocation decisions. Past performance is no indicator of future performance

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Equity Outlook:

Will lower rates lift all boats in equities?

By Peter Garnry, Chief Investment Strategist

No recession and lower rates will lift the broader market

If we look at the global equity market some things have changed in third quarter. There has been a small rotation from cyclical sectors into defensive sectors as some investors took the technology declines in July and volatility hiccup in August as clues that things are about to get worse. The broader US equity market as defined by the equal-weight S&P 500 Index has begun to outperform the S&P 500 Index. This suggests that opportunities may be shifting away from the Magnificent 7 to the broader market. Lower interest rates and a soft landing scenario would point to an everything rally where the rest of the market begins to outperform. The strongest sectors of late have been real estate and utilities as investors are expecting those two sectors to do well with a backdrop of falling interest rates.

If we look across our thematic baskets we still observe the same trends. Defence remains the best theme this year with the New Biotech and Mega Caps rounding out the top three. Everything related to the green transformation is down for the year and is the contrarian bet going into 2025 as lower interest rates could help green stocks, but it is worth noting the risks to green stocks should Trump win the US election. The defence theme is by far together with the green transformation theme the two themes with highest sensitivity to the US election outcome in November.

Our long-term equity views, driven by long-term return expectations, across geography and sectors have not changed much from our previous equity outlook. The US equity market is still the strongest, but the European equity market is just more compelling because it is cheaper. At a sector level, the energy sector has seen expected returns rise during the third quarter as oil prices have fallen and looks very attractive despite its low growth outlook. Sectors such as health care, financials, and communication services also come with a positive outlook. Despite the comeback in utilities and real estate, those two sectors still have the weakest fundamentals and are the only two sectors that are raising capital from shareholders on a net basis.

Equity views

Regions	View	Catalysts
US	Neutral	Robust earnings outlook, AI theme, strong momentum
Europe	Overweight	Repricing on growth rebound, ECB rate cuts, value play
Japan	Neutral	BOJ pivot has ended the weak JPY trade
Emerging markets	Underweight	China private sector weakness, property crisis still present

Sectors	View	Catalysts
Energy	Overweight	Most attractive valuations and disliked by investors
Materials	Neutral	High input costs and still struggling with growth
Industrials	Underweight	Lack of broad quality and challenged by input costs
Consumer discretionary	Neutral	Headwinds persist but lower interest rate is positive
Consumer staples	Neutral	Still dealing with improving profitability post inflation
Health care	Overweight	The highest estimated forward growth on obesity and oncology
Financials	Overweight	Attractive net intererst margin and pickup in loan growth
Information technology	Neutral	Highest momentum, improving profitability, and high growth
Communication services	Overweight	Stable outlook based on good underlying growth
Utilities	Underweight	Structurally a low growth and capital intensive sector
Real estate	Underweight	Lower rates ahead is a positive, but structural headwinds persist

Source: Bloomberg and Saxo

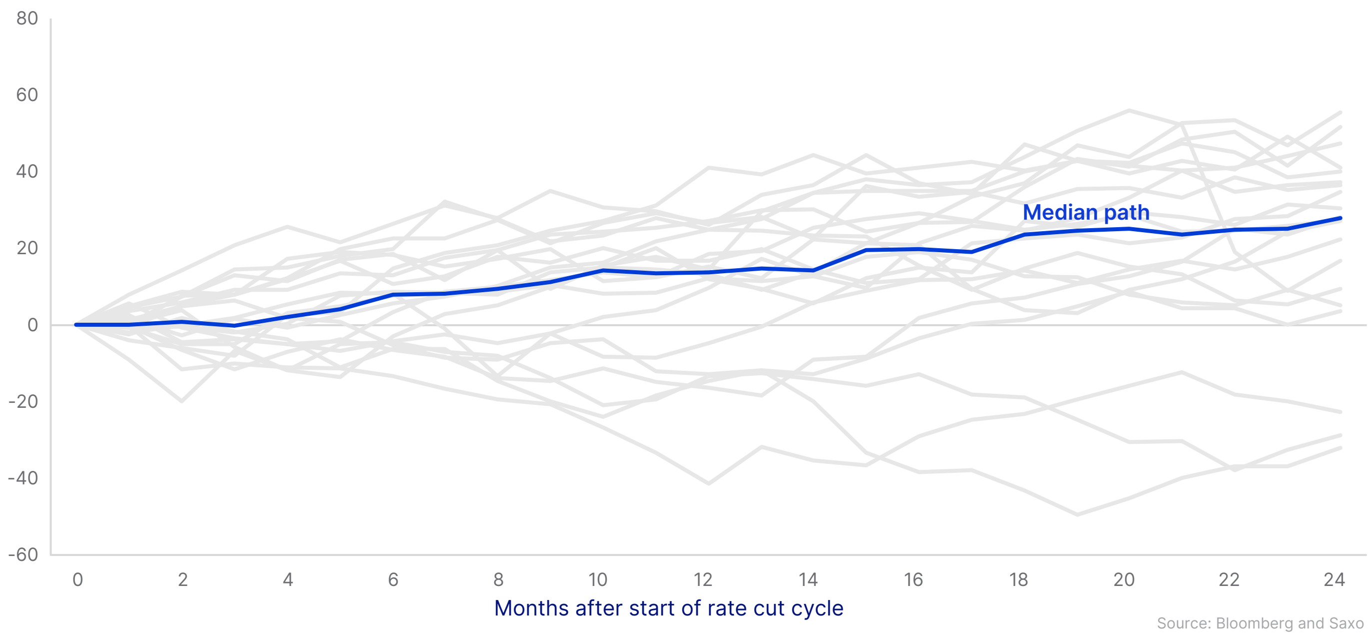
What we can learn from past Fed rate cut cycles?

The Fed decided at the September FOMC rate decision meeting to cut its policy rate by 50 bps, initiating what is the first rate cut cycle since 2019. The intense debate ahead of the decision was whether the Fed should start its rate cutting cycle cautiously as inflationary pressures are still present and the economy is doing fine, or should front load by cutting quickly to pre-empt the lagged impact on the economy from the high Fed policy rate. While an important discussion, it matters more for investors whether a Fed rate cut cycle is negative or positive for equities?

It is not an exact science to measure and count rate cutting cycles as there are several ways to choose your cycles, ranging from the number of consecutive cuts, the duration of the cycle, the magnitude of cuts etc. We have isolated 20 rate cut cycles by the Fed since 1957 and measured the subsequent 24-month performance in the S&P 500 Index. We find that the US equity market in general (the median path) performs better than the normal historical performance once a Fed rate cut cycle has begun. There are only three paths that end up with a negative return for investors after 24 months. Two of those were the rate cut cycles that begin in November 2000 and July 2007, respectively. These recent examples might lead many to make wrong assumptions on what a rate cut cycle is all about. For the long-term investor, the rate cut cycle should not be viewed as something negative, but rather an opportunity to see whether the portfolio has the right exposures that can do well when interest rates fall.

S&P 500 performance in % after Fed rate cut cycle begins

Most rate cut cycles have positive paths into the future (1957-2019)



Source: Bloomberg and Saxo

US election outcome will have a big impact on 2025

The Fed did not manage to slow the economy much in 2023 despite aggressively hiking its policy rate because of the unprecedented fiscal impulse by the Biden administration, one that was unleashed despite the lack of a recession. The fiscal deficit expanded by 4.7% of GDP, equivalent to almost $1trn from July 2022 to July 2023. US politics find itself in a populistic era, regardless of whether Trump or Harris wins. Only gridlock scenarios (in which either winner does not control both houses of Congress) can prevent fiscal stimulus from continuing at unsustainable levels, whereas a Trump sweep or Harris sweep victory would see a continuation of massive fiscal spending.

If Trump wins the election, sweep or gridlock, we expect this outcome to have a large positive effect on European defence companies as a Trump administration would mean less support for Ukraine. In this scenario, the EU would be forced to accelerate defence spending using its own defence industry, a lift to growth expectations for that sector. A Trump administration regardless of whether the Republicans control both houses in the US Congress will mean higher tariffs and potentially weaken sentiment in the US technology sector that depends on long and connected supply chains in Asia. We also expect a more negative sentiment around emerging markets under a Trump administration due to the risks from tariffs and from a stronger US dollar from tariffs.

A Harris victory most likely come with a gridlock scenario where Harris becomes US President but Democrats fail to win the Senate. This scenario could be negative for economic growth in 2025 as fiscal spending will enter a more difficult period. A Harris victory would likely boost stocks linked to the green transformation. We also believe emerging markets and technology stocks could react positively to a Harris administration, in part in a sigh of relief from avoiding new Trump tariffs.

Bonds Outlook:

Bonds hit reset: a new equilibrium emerges

By Althea Spinozzi, Head of Fixed Income Strategy

Overview: Navigating Rate Cuts and Inflationary Pressures

As we enter the final quarter of 2024, the fixed-income landscape presents a mix of opportunities and risks. Central banks, particularly in the US and Europe, are expected to continue gradual rate cuts, with a more normalized interest rate environment likely by late 2025. However, persistent inflation and fiscal deficits will likely keep long-term yields elevated, complicating the bond market. Investors should continue to focus on building a defensive buffer, prioritizing sound credits, and remaining agile in response to potential shifts in monetary policy and fiscal conditions.

Economic Outlook: Slower Growth and Persistent Inflation

The US economy remains resilient, with annualized growth of 3.1% as of June, driven by solid consumer spending. However, signs of a slowdown are emerging, as the labor market cools and job growth moderates. GDP growth is projected to slow to 2.4% in 2024 and further to 1.7% in 2025. While inflation has eased from its 2022 peak, it remains above desired levels, which will likely keep the Federal Reserve cautious about its rate-cutting trajectory.

In Europe, the economic recovery has been slower than expected, but low unemployment and rising real wages continue to be supportive. The ECB is likely to maintain its gradual rate-cutting approach, aiming to bring the deposit rate to 2.5% by September 2025.

Interest Rates: A New Equilibrium Emerges

Interest rates across developed markets are stabilising at a higher equilibrium, driven by central banks' cautious efforts to control inflation. In the U.S., inflation has moderated but remains elevated. The Federal Reserve has already cut 50 basis points, and forecasted two more 25 basis point cuts this year at its September meeting, depending on incoming data. Rate reductions could continue into 2025, potentially bringing the Fed Funds rate down to 3.5%. However, core inflation remains sticky and, barring recession, the Fed is likely to keep a restrictive stance to avoid reigniting inflationary pressures. That's why the Fed's longer run forecast of the long-term neutral rate has inched higher to the current 2.9% level, the highest since September 2018. This would likely mean elevated long-term U.S. Treasury yields in the medium term.

In Europe, economic growth has lagged expectations, but low unemployment and rising real wages continue to support modest GDP expansion. The ECB is expected to gradually reduce rates by 25 basis points per quarter, possibly lowering the deposit rate to 2% by late 2025. Yield curves in Europe are also likely to steepen, although long-term yields may remain elevated, influenced by trends in U.S. Treasuries.

Yield Curve Dynamics: Gradual Normalization Amid Structural Pressures

In the U.S., the yield curve is gradually normalizing as the Fed proceeds with rate cuts. However, long-term yields may face upward pressure due to ongoing concerns about deficit spending and the potential for economic reacceleration in 2025. Looking at the September FOMC macroeconomic forecast, which anticipates 2% real GDP growth over the next three years and inflation returning to 2%, the fair value of 10-year U.S. Treasury yields should be around 4%. Long-term yields are likely to remain rangebound until a clearer direction emerges from the U.S. election or a more rapid deterioration in economic conditions.

European yield curves are expected to follow a similar trajectory, with longer-term yields remaining elevated. In particular, the German 10-year Bund could rise to find a new trading range around 2.5%. The spread between Italian BTPs and German Bunds may widen slightly as the ECB normalizes its balance sheet, although we expected it to remain well below 200bps throughout the last quarter of the year, as BTPs attract investors seeking higher yields.

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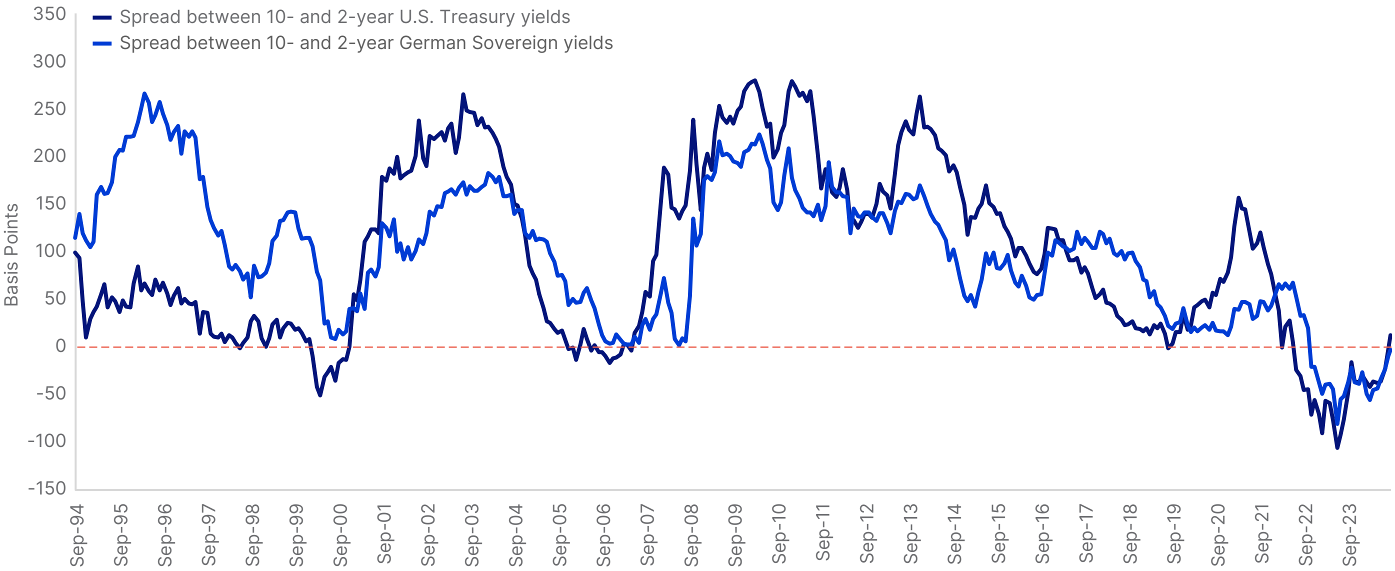
The Long Road to Normalization:
Global Yield Curves Steepen After Historic Inversion



Source: Bloomberg, Saxo

Investment Strategy: Managing Inflation, Volatility, and Monetary Policy Risks.

As we move into Q4 2024, bond investors should focus on building a buffer against inflation and potential surprises in monetary policy, exactly as in 2022 and 2023. Although markets anticipate an aggressive rate-cutting cycle, central banks may deviate from these expectations. Positioning in the short-to-intermediate segments of the yield curve will help investors capitalize on falling rates while reducing exposure to long-end volatility.

Credit selection will be critical, particularly in a volatile environment. Companies, particularly in the junk bond space, that have no immediate cash flow needs and have successfully extended their debt maturities are well-positioned to offer attractive yields while being resilient in the face of an economic slowdown. There are also opportunities in the investment-grade space, although these bonds generally carry longer durations and offer only a modest yield premium over their benchmarks.

The current environment is particularly favorable for emerging market bonds, especially in countries with high real interest rates and strong incentives to remain vigilant about inflation. These conditions give emerging market governments flexibility to cut rates, potentially enhancing bond valuations. However, by adopting a cautious approach and avoiding aggressive cuts, these countries can preserve currency stability against the dollar and euro, reducing depreciation risk.

In Latin America, central banks have already implemented significant rate cuts, limiting some investment opportunities. However, Mexico stands out, where interest rates remain elevated at above 10% as of end-Q3, despite inflation being near 5%. This gives Banxico room to cautiously lower rates while maintaining a buffer against inflation.

In Asia, the outlook is more promising. Central banks have taken a more cautious stance, with countries like Indonesia recently hiking rates in April and holding them steady since. Both Indonesia and Malaysia present attractive cases, as headline and core inflation have dropped to around 2%, while interest rates remain high, offering room for measured rate cuts in the future.

Fixed Income	Q4 View	Comments
U.S. Treasuries	Neutral	Long-term yields likely to remain elevated due to persistent inflation and fiscal deficits. Potential rate cuts will contribute to lower short-term yields. We favour maturities up to 5 years.
German Bunds	Mild Positive	Gradual steepening of the yield curve expected as ECB continues to cut rates. Long-term Bund yields could trade rangebound around 2.5%. We favour maturities up to 5 years.
U.K. Gilts	Neutral	BOE's alignment with Fed's rate cut cycle and resilient economy could support gilt prices, but inflationary pressures may limit long-term yield drops. We favour maturities up to 5 years.
Italian BTPs	Mild Negative	Higher yield appeal combined with stable political risk will likely keep BTP spreads over Bunds attractive for yield-seekers. However, ECB balance sheet normalization is likeley to cause a rise in yields during the last quarter of the year.
Emerging Markets	Positive	High real rates and inflation control in key emerging markets, particularly in Asia, make these bonds attractive, though currency volatility remains a risk.
Investment Grade Corporate Bonds	Neutral	Investment-grade corporates are offering modest yields over their benchmark rates, but longer durations could introduce volatility risk as inflation remains sticky and growth slows.
High Yield Corporate Bonds	Mild Positive	Selective opportunities exist, especially for companies with low cash flow needs and extended debt maturities. High yield spreads offer a cushion against inflation and monetary policy risk.

Source: Saxo
Last updated: 24 September 2024

FX Outlook:

USD in limbo amid political and policy jitters

By Charu Chanana, Head of FX Strategy

As we enter the final quarter of 2024, currency markets are set for heightened turbulence due to US election uncertainties, impacting fiscal policy, foreign relations, monetary policy, and geopolitics. Additionally, shifts in the global interest rate environment will further contribute to market volatility.

Trump's tariff threats and pro-growth policies could push USD higher

A Trump victory is expected to usher in higher fiscal spending and pro-growth policies, alongside risks of escalating trade and geopolitical tensions. While these factors are likely to provide cyclical support to the US dollar (USD), the structural outlook remains more complex.

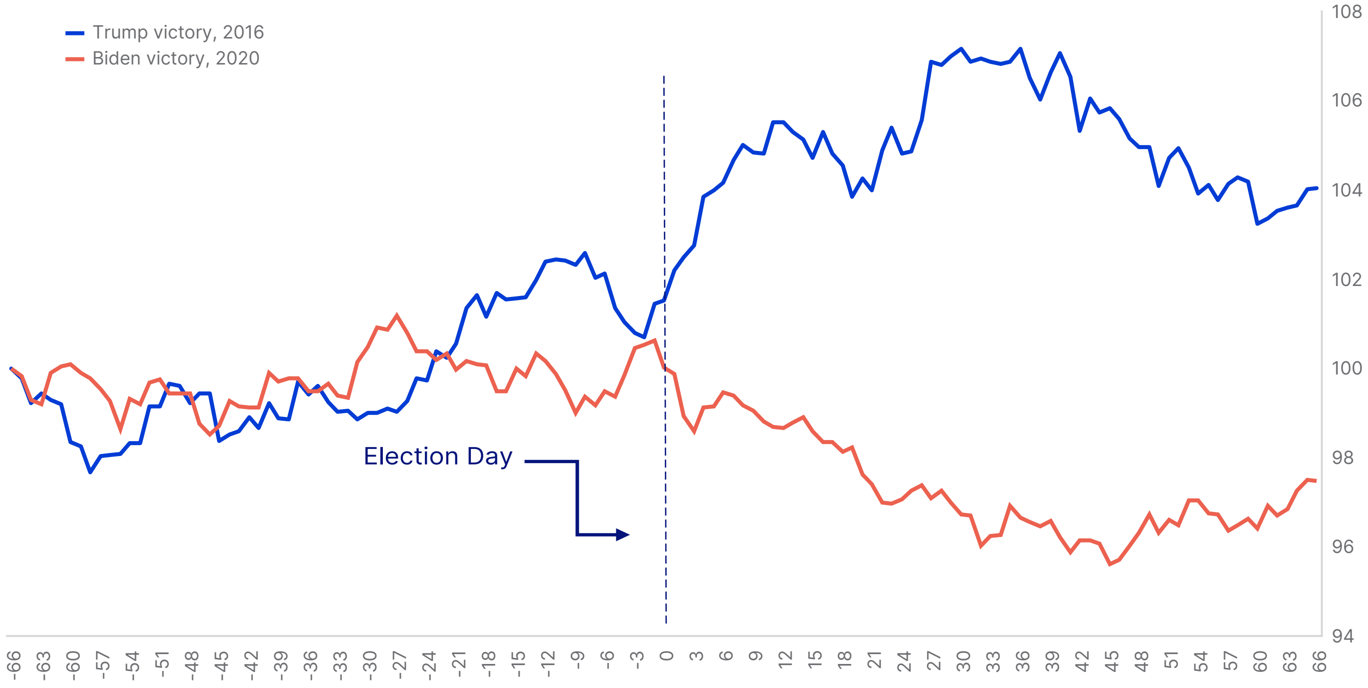
On the fiscal front, Trump's pro-growth policies, including higher fiscal spending and tax cuts, are likely to bolster the USD by reinforcing the narrative of US economic exceptionalism. Additionally, this could ease the pressure for aggressive Fed rate cuts as recession risks decline and inflation concerns come back in focus.

Trump's renewed focus on tariffs and protectionism would also likely lift the USD in the short term, especially against the Chinese yuan (CNH) and EM FX. Additionally, key commodity-exporting currencies such as the Australian dollar (AUD) and New Zealand dollar (NZD) could face headwinds under stricter trade policies, while the Canadian dollar (CAD) may prove more resilient due to lower exposure to tariff threats.

Geopolitically, a less supportive stance on Ukraine could heighten risk aversion, driving demand for safe-haven assets like the USD, yen, and gold. Meanwhile, European currencies may come under pressure in case of rising risks of tariffs and worsening geopolitics. The Mexican peso (MXN) is also exposed to risks of universal tariffs given its substantial exports to the US, as well as to threats of tighter immigration policies.

While the near-term outlook for the US dollar appears to be positive in case of a Trump presidency, the long-term structural outlook is potentially more bearish. Rising US debt levels and the risk of threats to the Fed's independence could weigh on the dollar over time. Moreover, Trump's aggressive tariff policies and strained foreign relations may accelerate global efforts to reduce reliance on the greenback as the reserve currency, amplifying risks of structural weakness.

US Dollar and the last two US elections



Harris's status quo will leave the Fed in the driving seat

A Harris presidency would likely emphasize fiscal restraint, with tax hikes playing a key role. This shift could prompt a more accommodative monetary policy from the Federal Reserve, increasing the likelihood of deeper interest rate cuts. The combination of fiscal tightening and monetary easing could be a near-term headwind for the USD.

However, the probability of Harris securing a clean sweep remains low. A divided Congress could lead to policy gridlock, hindering significant fiscal initiatives and increasing market volatility. This environment might boost demand for safe-haven assets, such as the USD, Japanese yen (JPY), and Swiss franc (CHF), especially if current stimulus measures face uncertainty in renewals and concerns about a 2025 recession grow.

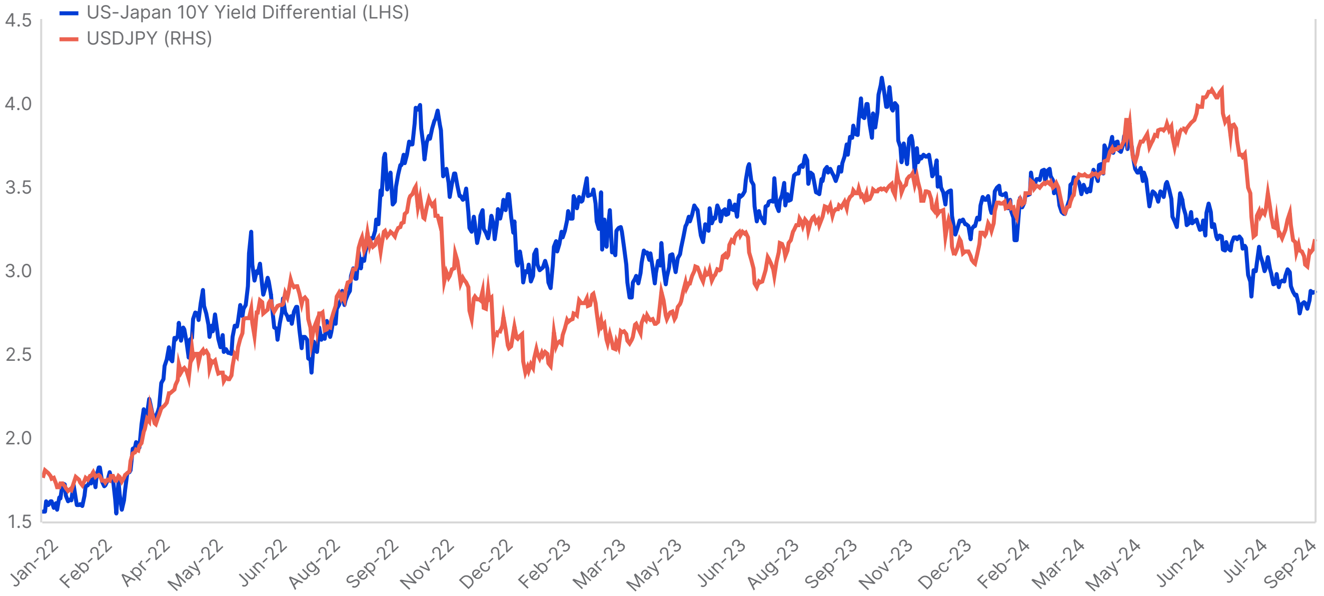
Harris' victory might also avoid a drastic worsening of trade relations, which could initially boost the Chinese yuan (CNH) and other emerging market currencies, in turn weakening the USD amid a risk-on environment. However, China's economic challenges may limit CNH gains. Similarly, commodity-exporting nations such as Australia and New Zealand could see their currencies rally as risks of worsening global trade relations are priced out. However, medium-term FX performance will largely depend on the broader economic context, whether the global economy achieves a soft landing or slips into a deeper recession.

Fed policy and risks of Yen carry trade reversal

With the Federal Reserve having begun its rate-cutting cycle, the USD is facing increased downside pressure. While the 'Dollar Smile' theory says that a soft-landing can mean a softer USD, it also needs other major economies to be relatively stronger to attract inflows. However, the German and Canadian economies continue to face hard-landing risks and China's growth engines could sputter further if global growth slows. This means Q4 could be bumpy for USD as the Fed cuts rates further, but a sustained sell-off may still be unlikely. Currency crosses like EURGBP (downside) or AUDCAD (upside) could remain interesting to watch on economic and policy divergences.

The Bank of Japan has left the door open for future rate hikes, narrowing the US-Japan yield differential and driving a reversal in the dollar-yen carry trade, with the pair already pulling back significantly from summer highs. As we approach the end of 2024, further unwinding of carry trade positions could support more yen strength. However, the pace may slow as the Fed could struggle to meet the market's dovish expectations if a recession doesn't materialize quickly. Meanwhile, the BOJ's cautious stance, with fading yen weakness reducing price pressures, may also moderate yen gains. The case for yen strength remains, bolstered by its safe-haven appeal and the shrinking yield gap with the US, but both the Fed and BOJ are likely to move gradually, keeping yen gains more modest.

USDJPY vs. Yield Spread between US and Japan



Source: Bloomberg, Saxo

CFTC positioning data also continues to reflect the shift we have seen in Q3 with JPY carry bets unwinding, but it does not rule out the scope for this shift to go further. Leveraged funds have sharply reduced their short yen positions, with contracts dropping from 114,596 on July 2 to just 18,015 by September 3. Asset managers have flipped to long yen positions, moving from -97,951 to +20,272 over the same period. Still, compare this to long positions of 14,622 contracts in leveraged funds and 103,196 contracts in asset managers on January 5, 2021, and there is a case to be made for yen strength to go further.

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Commodity Outlook:

Gold and silver continue to shine bright

By Ole Hansen, Head of Commodity Strategy

In early 2024, we focused on the metal sector as a potential winner for the year and beyond. Following an already strong first half, the precious metal sector, led by gold, continued higher in the third quarter, as investors sought protection in an uncertain world, culminating in September with the start of a supportive US rate-cutting cycle. The energy and industrial metals sectors—two growth-dependent sectors—suffered setbacks amid a deepening slowdown in China and rising recession risks elsewhere, most notably in Europe.

As of now, the Bloomberg Commodity Total Return Index is up around 3.5% for the year, with strong gains in precious metals, soft commodities, and, to a lesser extent, industrial metals being offset by losses across the energy sector, and not least the grains sector, where prices remain subdued following another strong production year. While adverse weather drove large gains in coffee, cocoa, and sugar, the year so far has belonged to metals, especially gold and silver. These two investment metals have seen strong demand from investors.

Individual	Q3 2024	Return 12M*	12M Roll**	Spec Pos***
Crude (WTI & Brent)	Positive	-8.5	4.4	Very Low
Gasoline	Positive	-10.6	3.8	Very Low
Natural gas	Positive	-44.9	-27.7	Neutral
Gold	Neutral	35.6	-4.3	Very high
Silver	Positive	30.0	-4.4	High
Copper	Neutral	22.6	-3.8	Neutral
Corn	Positive	-20.9	-9.0	Very Low
Wheat	Neutral	-8.8	-10.5	Neutral
Arabica Coffee	Neutral	96.4	6.1	Very high

Source: Bloomberg and Saxo

* Total return incl roll yield
** Return at unchanged prices in 12 months time
*** Hedge fund net: 1-month vs 3-year average

Election impact on commodities

The energy sector will be watching the US presidential election closely, given the two candidates' opposing views on traditional versus renewable sources of energy. Trump's pro-energy policies may, over time, add downward pressure on energy prices from higher production and upward pressure on OPEC+ to keep them supported, while a Harris presidency would maintain policies that promote the use of electric vehicles and renewable energy, both of which require large amounts of green transformation metals, from copper and lithium to silver, aluminium, and cobalt.

Overall, the risk of large-scale unfunded government spending—whether it's infrastructure, renewable energy focus, or social programmes—as well as US-China trade wars or tax cuts may all raise fresh concerns about inflation and rising levels of government debt, leaving the market to speculate that investment metals such as gold may find support no matter the outcome of the election. And in the event the US election results in a gridlocked Congress, even if fiscal spending is restrained, this would raise the risk of a recession, requiring more forceful Fed easing – also gold supportive.

Gold and silver have more upside

As we head towards the final quarter and the November US presidential election, we see multiple uncertainties continuing to underpin demand for investment metals, potentially led by silver, provided emerging signs of stabilising demand for industrial metals in China can be sustained. The reasons investors continue to pay record prices for gold boil down to concerns about global developments from fiscal profligacy, geopolitics, and "de-dollarisation" from central banks, as well as its general safe-haven appeal. A supportive rate-cutting cycle from the US Federal Reserve adds to the mix.

Given the prospect of these underlying demand trends not going away anytime soon, we forecast further upside to gold ahead of year-end and into 2025, when the yellow metal has the potential to reach another psychological mark of USD 3,000. Supported by a stabilising industrial metal sector, silver could potentially do even better, not least considering its relative cheapness to gold, which could see it take aim at USD 40 next year. This represents a conservative target of the gold-silver ratio at 75 versus the current level of around 83.

Crude's sluggish demand outlook forcing a downward range shift

Brent crude oil's September slump below USD 70 proved to be relatively short-lived. The market concluded that at such low prices, and with hedge funds holding a record short position (belief that prices would continue to fall), lower prices would require a recession to be justified. We estimate the probability of a US recession in 2025 is at only 25%, but with the impact of higher interest rates still uncertain. Despite some economic weaknesses, key indicators such as growth, capital expenditures, and job postings suggest the economy is not in a recession yet.

However, the combination of robust non-OPEC+ production growth and sluggish demand, especially in China, which has seen its 2024 demand growth slow to a few hundred thousand barrels a day from around 1.3 million barrels per day in 2023, is likely to keep the upside capped in the coming months. Some of the supply side focus is on Libya, where prolonged supply disruptions may help tighten the market, and on OPEC+ as we watch for whether they will continue to delay a planned production increase, now set for December. Having spent a considerable time this year trading in the USD 80's we believe these considerations point to a Brent crude price stuck in 70's for the foreseeable future, with a geopolitical event or a recovering China the possible drivers of any upside surprise.

Copper demand on the mend following mid-year slump

Copper prices have stabilized following a mid-year slump the came after a brief spike to all-time highs in late May, mostly from speculators looking for higher prices amid rising demand from the energy transition, and on the expected surge in demand for power from AI-related datacenters. The May to August slump was further exacerbated by a continued rise in stocks held at warehouses monitored by the major futures exchanges, most notably in China, which was seen as a sign of sluggish demand, eventually forcing prices lower to levels that by now have started to stimulate demand.

With the demand outlook stabilizing, a troubled supply side has also received some attention following production downgrades in Chile and Peru, two of the world's top suppliers. Into the final quarter and beyond, we believe the combination of lower funding costs as the US Federal Reserve cuts rates, the avoidance of a recession in the US, a stabilising growth outlook in China amid government support and continued demand towards the green transition, will all help underpin prices, leaving the door open for additional but at this stage not spectacular gains as those we saw in early 2024.

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SaxoStrats Team


Peter Garnry
Chief Investment Strategist


Althea Spinozzi
Head of Fixed Income Strategy


Charu Chanana
Head of FX Strategy


Ole Hansen
Head of Commodity Strategy