kotak Securities

MARKET OUTLOOK

Foreword

Dear Valued Investor,

India is currently one of the fastest-growing economies in the world. The World Bank and IMF have projected that India will grow by 7% in FY25 and by 6.5% in FY26. The macroeconomic stability that came from good agricultural output, increased investments in public infrastructure, growth in real estate and a buoyant manufacturing sector, along with a focus on self-reliance, has made India an attractive destination for investors from across the world, despite growing global challenges.

In 2024, we witnessed the Indian market turning even more volatile than before. The Nifty and BSE Sensex peaked in September before sharply correcting in October and November this year. The Nifty gained 21%, while BSE Midcap and Small Cap indices rose by 24% and 27%, respectively. This turbulence was driven by global economic weaknesses, geopolitical tensions, high valuations and elections in the US and India. Foreign Portfolio Investors (FPIs) purchased equities (primary + secondary) worth ₹93,000 crore until September but sold ₹111,000 crore in October-November, thanks to the retailer's liquidity support, which absorbed the supply from the primary market and selling from promoters. Sectors that have done well in CY24 include Realty, Pharma, Power, Banking and Capital Goods, while IT and consumer sectors underperformed.

Gold and silver reached record highs, fueled by de-dollarisation and robust safe-haven demand, while crude oil faced headwinds from weak Chinese demand and OPEC+ adjustments. SIP flows reached a record ₹25,000 crore in October 2024, showing strong retail investor confidence. Domestic inflows provide stability amid FPI outflows.

On the currency front, the USD/INR market saw a strengthening US Dollar, with the Dollar Index (DXY) rising 2.6% year-to-date. The Indian Rupee weakened but remained relatively stable compared to global peers due to proactive RBI interventions and strategic reserve management. The rupee may continue to be under pressure in the coming year.

On a happy note, India's financial landscape has witnessed a promising demographic shift, with a surge in young investors aged 20-30 entering the stock market, driven by a desire to build wealth early on. This trend motivates us to empower India's younger generation by providing them with the knowledge and resources to enhance their investment journey and achieve their financial goals. While presenting the market outlook, we have to consider the one-year forward outlook of EPS, and based on that, our base case target on the Nifty is 26100, which is 19 times FY27 estimated EPS of ₹1,372. We are of the view that while domestic fundamentals are strong, cautious optimism is advised as market sentiment may improve with election results and global easing. Long-term investors should focus on quality assets amidst rich valuations. Geopolitical tensions, protectionist trade policies, and persistent inflation are notable risks.

We expect a great closure to CY25 with moderate growth and macroeconomic stability. I believe in India's growth story and urge everyone to invest in select sectors and stocks at current valuations and keep adding on dips. With immense pride, I present to you the Market Outlook 2025 report, which includes projections and views on the stock market, currency and commodities defined by our team of experts. Wishing you and your family a very happy and prosperous new year.

Regards,

Shripal Shah
MD & CEO, Kotak Securities

Sources:

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Equity Outlook

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Strategy 2024

Indian Markets were very volatile in CY24YTD with the Nifty surpassing 26250 and BSE Sensex surpassing 85900 in September 2024 and both indices gaining around 21% in the first nine months of CY24. However, the Nifty corrected by 11.3% to 23300 from its peak over October 2024 and November 2024. Even the BSE Midcap and the Smallcap Index were volatile in CY24; but they outperformed Nifty and gained ~24% and ~27% respectively in CY24YTD. The volatility in markets within a single calendar year was due to factors like geopolitical tensions, global economic weakness, global elevated interest rates, general and various state elections in India, comfortable domestic macros, weak corporate earnings, volatile inflation especially food inflation, volatile high frequency indicators in India, US President elections and steep valuations of Indian Markets. All classes of investors participated in the up move and subsequent sell-off. FPIs bought equities (primary+secondary market) worth ₹93000 cr in the first nine months of CY24 but sold equities worth ₹94000 cr in October 2024 and ₹17000 cr in November 2024. The retail category was not behind and added positively to the markets with monthly SIP crossing ₹24000 cr in September 2024 and ₹25000 cr in October 2024. CY24YTD belonged to Autos (+26.1%), Metals (+11.7%), Oil & Gas (+13.9%), Realty (+31.1%), Pharma (+30%), Capital Goods (+26%) and Power (+26.3%).

Global economy is stabilizing

Easing of inflation and evidence of the resilience of global commerce make us cautiously optimistic on the global economy. There is solid degree of confidence that the US has turned a corner on inflation with a 75bps cut in interest rates and one more potential rate cut coming this year and 100bps in 2025. In Europe, recession fears remain, but markets are gaining confidence that central banks, particularly the European Central Bank (ECB), have more room to maneuver following the Fed's recent 75-basis-point rate cut. The European Central Bank (ECB) has cut interest rates for five times this year. Markets are also convinced that the next rate cut by the European Central Bank will be in December 2024 and are eyeing over 125bp of cuts by November next year. Asian economies look good driven by the People's Bank of China cutting its 14-day repo rate and reverse repo rates, cutting reserve requirement ratio (RRR) by 50bps, lowering mortgage rates for existing loans and increase its debt. Even Bank of Japan indicated that the bank is not rushing to hike rates. Monetary policy, is thus turning a corner with an expected return to loosening in the majority of countries and regions.

Trump and republicans win US elections

The Republican Party's complete control of the presidentship, the house (likely) and the senate may result in pro-growth economic policies, such as (1) lower tax rates for corporates and individuals and (2) a higher focus on domestic manufacturing. The market has already factored in (1) higher earnings for the US market and (2) a stronger US dollar. EMs are even less likely to find favor with asset allocators, especially in light of likely worsening in global geopolitics and trade. FPI outflows from India may accelerate in the near term, given the dominance of passive inflows in FPI flows.

Tariff-driven rebalancing of US trade deficits

In our view, a more protectionary trade regime in the US will impact (1) global GDP (including the US) growth and trade; other countries are likely to implement retaliatory tariff increases and (2) US inflation negatively. The new US administration is likely to focus on a tariff-driven approach to rebalance the large US trade deficit. The inflationary nature of the new policies is likely to result in higher US interest rates. The US dollar is likely to stay stronger in the near term. However, it will weaken over the medium term due to likely higher US government deficits.

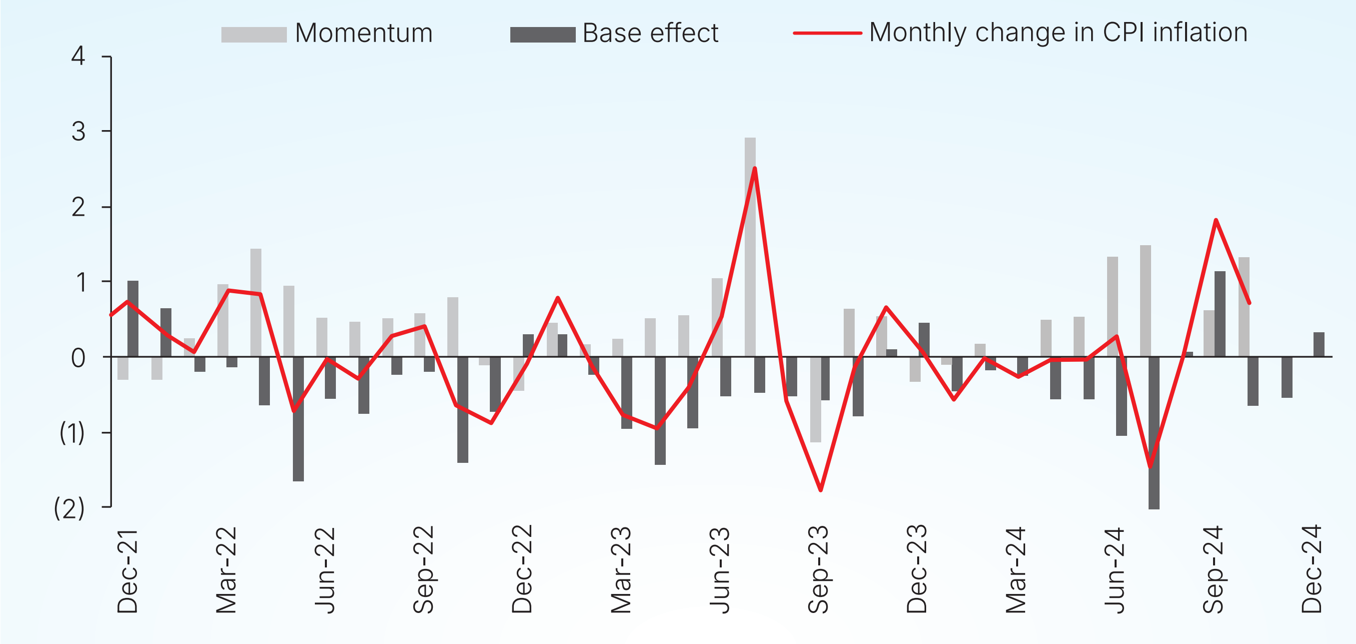
Domestic inflation remains sticky

The October CPI inflation rose further to 6.21% (Kotak: 5.6%; consensus: 5.9%; September: 5.5%), overshooting the upper bound of the RBI's target range after September 2023. The headline CPI increased 1.3% mom, led by broad-based pickup across the food and core inflation. Food inflation (10.9% yoy) was led by sharp price increases in vegetables, oils and fats, eggs, and fruits. Durable food inflation fell to 3.6% (September: 3.8%), but volatile food inflation picked up to 24.2% (5.9% mom; September: 19.5%). We expect November inflation to overshoot the 6% mark, as high-frequency food prices remain elevated. While urban and rural inflation have spiked, rural inflation continues to be relatively higher.

We expect the rate cycle start to be pushed to early FY26

Persistence of the food price shock could have been an upside risk of around 120 bps to the RBI's Q3FY25 CPI forecast of 4.8% and around 40 bps to its FY25 forecast of 4.5%. Meanwhile, growth momentum has started to show signs of fatigue with the slowdown persisting in H2FY25. A cyclical slowdown could eventually be supportive of rate cuts (we expect 75 bps through the cycle). However, with our Q3FY25 average inflation estimate at 6%, we expect the RBI to begin easing in early FY26. The uncertain global policy environment (US trade policy, geopolitics and others) and related flight of capital could further keep the RBI cautious in the near term.

INFLATION MOMENTUM SPIKES



Source: CEIC, Kotak Economics Research

Balance of payment remains favourable

Goods trade deficit in October widened to US$27.1 bn from US$20.8 bn in September with an expansion in both exports and imports. Imports in October grew 3.9% yoy to record highs of US$66.3 bn (September: US$55.4 bn) in the run up to the festive season in October and November. Oil imports were at US$18.3 bn (much higher than in September: US$12.5 bn), Services trade surplus remained steady at US$17 bn. We continue to pencil in a modest increase in services surplus in FY25, assuming global growth remains broadly steady in the last few months of FY25.

Concerns regarding the overall external balance will remain around (1) volatile commodity prices, (2) uncertainty on economic policies in the US and China, and (3) data dependent, stop-watch-go global monetary policy easing cycle. Expectations around US President-elect Trump's likely economic and trade policies along with anticipation of China's fiscal stimulus will keep external balance under pressure. A stronger dollar partly stemming from risks of economic policies-led inflationary pressures in the US will keep India yields and INR on the higher side. We retain our FY25 CAD/GDP estimate at 1.2% (FY26E at 1.3%) accounting for recent trends. On the back of lower net FPI inflows, we estimate BOP to turn to a moderate deficit (FY25E: (-)US$0.2 bn; FY26E: (-)US$1.7 bn). We expect average USD-INR to be centered around 84 in FY25E and around 84.75 in FY26E.

India's balance of payments-We expect CAD/GDP at 1.2% in FY25E

							Oil@70	Oil@80	Oil@90
US$bn	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**		
Current account balance	-57.3	-24.7	23.9	-38.8	-67.1	-26.1	-48.2	-39.8	-31.4
GDP	2,705	2,835	2,674	3,167	3,352	3,567	3,895	3,895	3,895
CAB/GDP (%)	-2.1	-0.9	0.9	-1.2	-2	-0.7	-1.2	-1	-0.8
Trade balance	-180	-158	-102	-189	-265	-245	-274	-266	-257
Trade balance/GDP (%)	-6.7	-5.6	-3.8	-6	-7.9	-6.9	-7	-6.8	-6.6
FDI	31	43	44	39	28	10	14	14	14
FPI	-1	1	36	-17	-5	44	10	10	10

Source: RBI, Kotak Economics Research estimates

Mixed domestic factors

In the last 2 quarters, a divergent trend has emerged. Demand from tier-3 towns and villages has firmed up, with high-frequency indicators showing an uptick, while demand in urban consumption has slowed down across categories. Manufacturing and services activities, which are closely linked to consumption, have seen a drop in the past few months, as indicated by the trend in the PMIs. This shows that businesses are scaling back on production and services, which could mean slow job growth and lower income stability. Retail sales, a key indicator of consumer demand, slowed further in Q2FY25 vs. Q1FY25. Consumers have also pulled back on non-essential spending and discretionary spending. Credit growth lagging indicates slowing of borrowing, which could also be a function of banks and NBFCs tightening their lending norms, especially in the unsecured segment. Passenger vehicle sales, which are often seen as a good proxy to gauge urban demand, has been on a downward trend. On the other hand, sales of two-wheelers, a proxy to understand the rural sentiment, is on an uptrend. Mobility indicators like railway freight earnings, fuel consumption and air traffic have also eased in recent months.

HIGH FREQUENCY INDICATORS

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
Manufacturing														
PMI manufacturing (sa)	57.5	55.5	56.0	54.9	56.5	56.9	59.1	58.8	57.5	58.3	58.1	57.5	56.5	57.5
Industrial credit (ex HDFC)	6.0	4.8	5.5	7.5	7.5	8.4	8.0	6.9	8.9	7.7	10.2	9.8	9.1	
Petroleum products consumption (industrials)	12.8	(2.9)	(5.0)	14.8	11.3	11.1	(4.0)	15.5	(0.7)	3.1	21.6	(10.8)	(5.2)	2.2
IIP manufacturing	5.1	10.6	1.3	4.6	3.6	4.9	5.9	4.2	5.1	3.5	4.4	1.1	3.9	
Electricity demand	11.8	23.5	6.2	0.8	5.5	8.9	10.0	9.0	13.6	8.0	4.0	(3.7)	0.5	1.1
Railways freight traffic	6.7	8.5	4.3	6.4	6.4	10.1	8.6	1.4	3.7	10.1	4.5	0.0		1.5
Steel production	18.6	16.3	5.1	12.9	6.4	13.5	7.2	5.7	6.2	1.0	10.0	3.9	1.6	2.7
Construction														
Steel consumption	17.4	17.2	12.5	13.7	12.3	7.0	12.5	9.6	15.9	19.5	14.4	10.0	11.8	9.0
IIP cement	4.7	16.9	(4.7)	3.8	4.1	7.8	10.6	0.2	(0.6)	1.8	5.5	(3.0)	7.1	
Core infrastructure	9.5	12.7	7.9	5.1	4.2	7.1	6.3	6.9	6.9	5.0	6.1	(1.6)	2.0	
Home loan (ex HDFC)	12.3	12.7	12.8	11.7	14.1	13.6	17.1	13.9	16.9	18.2	19.3	18.8	19.5	
Services														
PMI services (sa)	61.0	58.4	56.9	59.0	61.8	60.6	61.2	60.8	60.2	60.5	60.3	60.9	57.7	58.5
Services credit (ex HDFC)	21.6	20.4	22.2	20.0	21.0	21.4	20.8	19.5	20.7	15.1	15.9	15.6	15.2	
Domestic air passenger traffic	18.4	10.8	9.0	8.3	4.6	4.8	3.7	2.4	4.4	5.8	7.3	5.7	6.4	
Airport cargo	(0.3)	13.1	6.6	10.8	15.5	22.7	17.3	10.0	15.6	15.9	18.1	12.5	18.0	
Consumption														
Personal credit (ex HDFC)	17.6	17.2	17.7	16.3	17.0	16.6	17.6	15.3	17.8	16.6	17.9	16.9	16.9	
Average no. of daily GST e-way bills (mn)	3.1	3.2	2.9	3.1	3.1	3.4	3.3	3.2	3.3	3.3	3.4	3.4	3.6	3.9
GST collections	10.2	13.4	15.1	10.3	10.4	12.5	11.5	12.4	10.0	7.7	10.3	10.0	6.5	8.9
Passenger vehicle sales	17.7	33.9	21.0	21.7	31.9	27.0	26.0	1.3	4.0	3.1	(2.5)	(1.8)	(1.4)	0.9
Non-oil imports	(11.6)	14.8	(1.2)	0.8	3.8	20.0	(5.2)	8.0	0.6	1.7	4.6	15.9	5.8	0.7
Fuel consumption (retail)	5.0	7.2	0.5	(0.9)	5.7	7.4	4.8	5.7	2.6	2.2	7.1	2.3	0.2	3.8
FASTag (INR mn)	50.9	55.4	53.0	58.6	55.6	55.8	59.4	55.9	59.1	57.8	55.8	56.1	56.2	61.1
Labor market														
Naukri job index	(8.6)	1.2	(23.3)	(15.6)	(11.1)	(7.5)	(10.8)	(2.7)	(1.8)	(7.6)	11.8	(3.4)	(3.8)	10.0
All India unemployment rate (%)	7.3	9.4	8.9	8.7	7.4	8.1	7.4	8.1	7.0	9.2	7.9	8.5	7.8	8.7
- Rural	6.2	9.8	8.7	8.0	6.5	7.9	7.1	7.8	6.3	9.3	7.5	8.4	7.0	8.8
- Urban	9.6	8.5	9.3	10.1	9.1	8.6	8.1	8.7	8.6	8.9	8.5	8.7	9.2	8.6
Rural														
Rural wages (men)	7.1	6.8	6.6	6.5	6.3	6.5	6.2	5.8	4.9	4.7	4.7	5.6	5.9	
Two wheeler sales	0.8	20.2	31.3	16.0	26.2	34.6	15.3	30.8	10.1	21.3	12.5	9.3	15.8	14.2
Tractor sales	(14.7)	(4.3)	6.4	(19.8)	(15.3)	(30.6)	(23.1)	(3.0)	0.0	3.6	1.6	(5.8)	3.7	22.4
Employment demanded under MNREGA (sa, mn)	28.8	28.3	27.3	26.5	25.2	24.7	24.6	24.5	24.6	22.7	22.9	25.2	25.6	25.9
Fertilizer sales	6.9	12.3	(2.6)	(1.1)	(7.5)	(11.3)	3.4	(1.8)	0.5	7.1	(2.0)	(10.7)	(9.5)	(10.8)

Source: Bloomberg, Kotak Institutional Equities

India's macroeconomic position continues to be decent, with (1) solid growth and BoP (currency) outlook and (2) a manageable fiscal and inflation (barring the recent spike) outlook. We expect real GDP growth of 6.1% in FY25E and 6.4% in FY26E.

Focus more on execution, instead of any new reforms or stimulus

The focus of the central government is likely to be on ramping up capex, which is running significantly behind FY25BE targets and finish the plethora of ongoing projects. The strong electoral performance in Haryana and Maharashtra, coupled with the lack of any major state elections in the near term, is likely to rule out any fiscal stimulus from the center. However, while central fiscal may continue to improve, an increasing shift toward populism in states may gradually weigh on India's consolidated fiscal deficit.

Q2 results weak in general

Q2FY25 net income of the Nifty-50 Index grew 5%, moderately ahead of our expectation of 3.7% growth. Our analysis of Q2FY25 results suggests a broad-based slowdown in the Indian economy. Companies have broadly disappointed versus modest expectations on net sales, EBITDA and net profits. Consumer companies have reported weak volume prints, with commentary suggesting a challenging demand environment. IT companies reported unexciting numbers and their commentary suggests a gradual recovery ahead. Banks have done reasonably well, with moderate credit growth (YoY) and stable NIMs and asset quality (QoQ). The weak Q2FY25 operating results reflect some of our long-standing concerns around (1) the Street's optimistic profitability and volume assumptions and (2) disruption threats across sectors.

Sector wise surprises in Q2FY25 revenues and net profits

Positive	Negative
Electronic Manufacturing Services	Electric Utilities
Fertilizers & Agricultural Chemicals	Oil, Gas & Consumable Fuels
Hotels & Restaurants	Commodity Chemicals
Consumer Durables & Apparel	Specialty Chemicals
Capital Goods	Automobiles & Components
Banks	Transportation
Media	Internet Software and Services
Real Estate	

Source: Bloomberg, Kotak Institutional Equities

SIP flows remain strong

The inflows into Indian Markets through SIP have been growing above ₹15000 cr inflows per month since July 2023. Average per month for FY24 was around ₹16500 cr and for FY23 it was ₹13000 cr. The total inflow has reached ₹1.59 lakh crores in the first seven months of FY25. This came following an inflow of over ₹1.99 lakh crore in FY24. We expect the trend to continue. Strong SIP flows underpin investors' faith in the Indian Economy. Such flows also support the markets in case of outflows by FPI/FII.

SIP flows

Rs cr	FY25	FY24	FY23	FY22	FY21	FY20	FY19
Total	159,248	199,219	1,55,972	1,24,566	96,080	1,00,084	92,693
March		19,271	14,276	12,328	9,182	8,641	8,055
February		19,187	13,686	11,438	7,528	8,513	8,095
January		18,838	13,856	11,517	8,023	8,532	8,064
December		17,610	13,573	11,305	8,418	8,518	8,022
November		17,073	13,306	11,005	7,302	8,273	7,985
October	25,323	16,928	13,041	10,519	7,800	8,246	7,985
September	24,509	16,042	12,976	10,351	7,788	8,263	7,727
August	23,547	15,814	12,693	9,923	7,792	8,231	7,658
July	23,332	15,245	12,140	9,609	7,831	8,324	7,554
Jun	21,262	14,734	12,276	9,156	7,917	8,122	7,554
May	20,904	14,749	12,286	8,819	8,123	8,183	7,304
April	20,371	13,728	11,863	8,596	8,376	8,238	6,690

Source: AMFI

We are cautiously optimistic on India

India's macroeconomic position continues to be decent, with (1) solid growth and BoP (currency) outlook and (2) a manageable fiscal and inflation (barring the recent spike) outlook. However, Q2FY25 results and commentary highlighted (1) a slowdown in rural demand, in contrast to the recovery seen in Q1FY25 and (2) an unexpected slowdown in urban India. On the other hand, NIMs and credit costs of banks surprised positively, while revenues of the IT services sector saw better-than-expected sequential recovery.

The Indian market has seen some correction in the past few months, with (1) rich valuations weighing on stock prices, (2) FPIs turning more cautious and (3) weaker-than-expected earnings and economic outlook denting sentiment. The last few months' market performance and Q2FY25 results reflect some of our long-held worries around rich valuations and disruption risks. GST collections, IIP numbers, trade figures, fiscal deficit, strength of INR and high frequency indicators continue to remain stable and give us comfort. Crude prices are benign at USD 72/barrel.

BJP's impressive victory in Maharashtra in the recent elections, following its win in Haryana in October 2024, is likely to result in continuity of the central government's development agenda, notwithstanding the loss in Jharkhand. We see (1) limited overall fiscal consolidation, (2) ramp-up of central government capex in H2FY25 and (3) near-term sentiment boost for the market, even as valuations stay rich and fundamentals weakish. We expect real GDP growth of 6.1% in FY25E and 6.4% in FY26E factoring in (1) improvement in government capex (2) improvement in global situation and (3) gradual improvement in consumption.

Outlook and valuation

Market corrections often stem from uncertainties; however, improvements in domestic macroeconomic indicators play a crucial role in supporting the market during these corrections. We anticipate that India's macroeconomic situation will improve in the coming quarters, with inflation expected to be moderate. Additionally, festivals and weddings should contribute to enhanced earnings.

Government spending has been slower than expected due to the recent general elections; however, we anticipate an increase in spending during the third and fourth quarters of FY25. This should help revive GDP from its current levels. Retail investments, which have been a cornerstone of the Indian markets since the post-COVID period, are likely to continue providing support. In summary, our structural growth story remains intact, and we should maintain our confidence in long-term investing.

Post-decent 20.3% earnings growth in FY24, we expect net profits of the Nifty-50 Index to grow by 4.9% (EPS of ₹1,036) in FY25, by 16.3% (EPS of ₹1,206) in FY26 and by 14% (EPS of ₹1,372) in FY27E. At 24275 (as on 27th November 2024), Nifty trades at 23.4x FY25E, at 20.1x FY26E and at 17.7x FY27E. FY25 will likely see more broad-based growth across sectors. However, the OMCs will likely drag down overall profits, as we expect their profits to normalise in FY25. Our advice is to invest in select sectors and stocks at current valuations and keep adding on dips. Our preferred sectors are Banks, IT, Realty Pharma and Healthcare.

VALUATION SUMMARY OF NIFTY 50 SECTORS

	Mcap. (US$ bn)	Adj. mcap. (US$ bn)	EPS growth (%) 2025E	2026E	2027E	Free-float PER (X) 2025E	2026E	2027E
Automobiles & Components	175	98	9.0	11.0	15.5	22.7	20.3	17.5
Banks	435	383	2.4	14.2	16.3	17.5	15.3	13.3
Capital Goods	120	71	40.2	18.6	18.7	32.6	26.9	22.4
Commodity Chemicals	28	14	(21.5)	9.8	11.6	55.6	50.6	45.3
Construction Materials	57	27	(3.3)	26.8	20.4	35.4	28.3	23.6
Consumer Staples	185	103	0.1	11.6	10.6	37.2	33.5	30.4
Diversified Financials	92	43	28.8	21.1	23.3	18.4	15.6	12.7
Electric Utilities	77	39	6.1	12.0	7.2	16.9	15.1	14.0
Health Care Services	12	9	61.1	39.1	34.1	68.2	49.1	36.6
IT Services	382	180	9.4	11.9	12.3	29.6	26.1	23.2
Insurance	36	18	21.4	13.7	11.0	73.2	64.3	57.9
Metals & Mining	64	36	33.8	47.5	19.5	17.6	12.2	10.4
Oil, Gas & Consumable Fuels	286	136	(13.6)	14.6	7.1	16.8	14.4	13.3
Pharmaceuticals	77	43	12.6	13.0	5.3	27.6	24.8	24.1
Retailing	61	34	28.1	29.2	28.3	94.0	72.0	55.4
Telecommunication Services	110	53	105.4	38.6	27.0	39.9	28.8	22.7
Transportation	32	11	20.1	25.5	11.3	25.3	20.2	18.1
Nifty-50 Index	**2,228**	**1,297**	**4.9**	**16.3**	**14.0**	**22.7**	**19.5**	**17.1**
Nifty-50 Index (ex-energy)	**1,943**	**1,161**	**10.8**	**16.7**	**15.6**	**23.7**	**20.3**	**17.7**
Nifty-50 Index (ex-banks)	**1,794**	**914**	**5.9**	**17.1**	**13.1**	**25.9**	**22.1**	**19.4**

Source: Bloomberg, Kotak Institutional Equities estimates

Nifty target

NIFTY base case target at 26100 by CY25 end: We expect profits of Nifty-50 Index to grow by 4.9% (EPS of ₹1,036) in FY25, by 16.3% (EPS of ₹1,206) in FY26 and by 14% in FY27E (EPS of ₹1,372). At 23350, Nifty trades at 22.5x FY25E, at 19.4x FY26E and at 17.0x FY27E.

Base case: We value NIFTY at 5% discount (at 19.0x) to last 10-year average PE of 20.0x on FY27 EPS of ₹1,372 and arrive at December 2025 Nifty target of 26100.

Bull case: We value Nifty at 5% premium (at 21.0x) to 10-year average PE of 20.0x on FY27 EPS of ₹1,372 and arrive at a December 2025 Nifty target of 28800.

Bear case – We value NIFTY at 15% discount (at 17.0x) to 10-year average PE of 20.0x on FY27 EPS of ₹1,372 and arrive at December 2025 Nifty target of 23300.

Scenarios for Nifty target

Case	Base	Bull	Bear
FY27 Nifty EPS	1372	1372	1372
Multiple accorded	19	21	17
Nifty Target for Dec 2025	26068	28812	23324

Source: Kotak Institutional Equities estimates and KS PCG research

Nifty earnings estimates

Year ending	FY25E	FY26E	FY27E
Nifty	24275	24275	24275
EPS	1036	1206	1372
P/E	23.4	20.1	17.7

Source: Kotak Institutional Equities estimates as on 27th November 2024

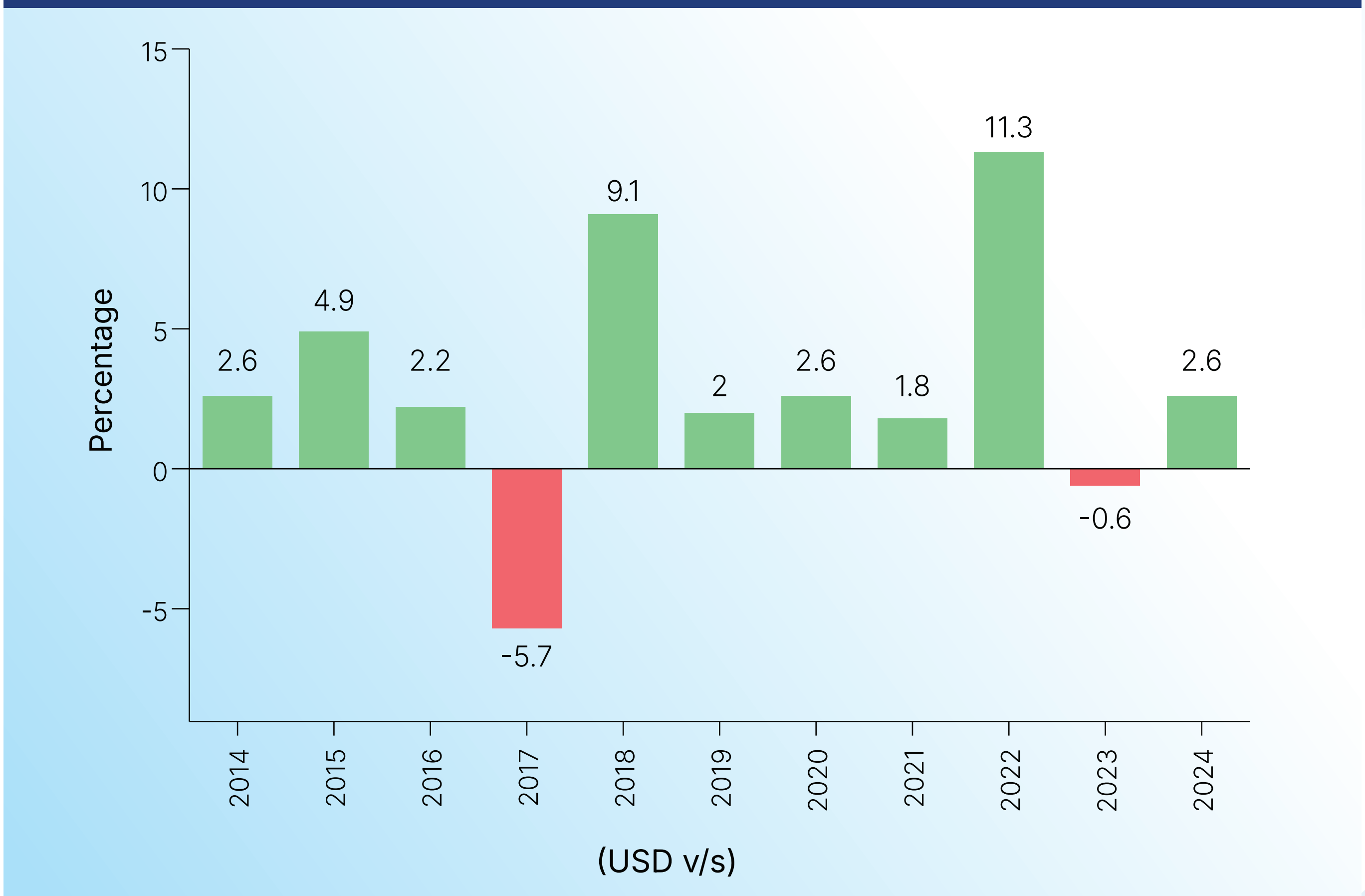
Currency Outlook

Anindya Banerjee
Head Currency & Commodity Research
Kotak Securities

USD/INR: Volatility on the Horizon

Overview: Unlike 2023, which witnessed a relatively stable exchange environment, 2024 has seen a resurgent US Dollar and a weakening Indian Rupee. Year-to-date, the US Dollar has appreciated by 2.6%, continuing a decade-long bullish trend. Over the last 11 years, the Dollar has appreciated in nine of them, mirroring the performance of the US Dollar Index (DXY). Effective monetary and fiscal policies have managed to contain the pace of the Rupee's depreciation, preventing severe economic disruptions.

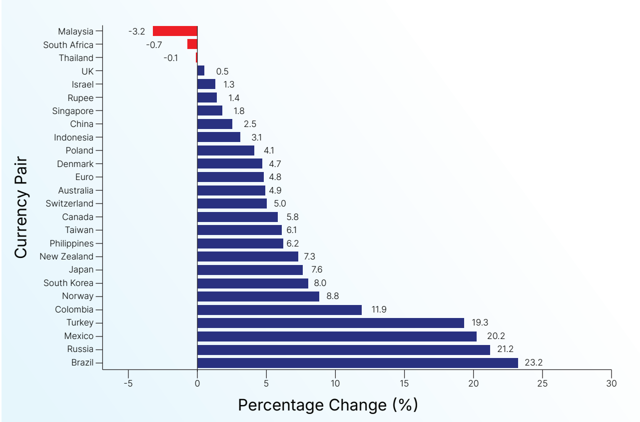
ANNUAL PERCENTAGE CHANGE IN USDINR (%)



Source: Bloomberg & Kotak Securities

Rupee in Context: While the Rupee has indeed weakened, it has fared better compared to most major global currencies. On both nominal and real effective exchange rate (REER) bases, the Rupee has been one of the strongest performers. This resilience is a result of strategic interventions and policies aimed at stabilising the currency.

HOW USD HAVE APPRECIATED AGAINST MAJOR CURRENCIES, YTD



Source: Bloomberg & Kotak Securities

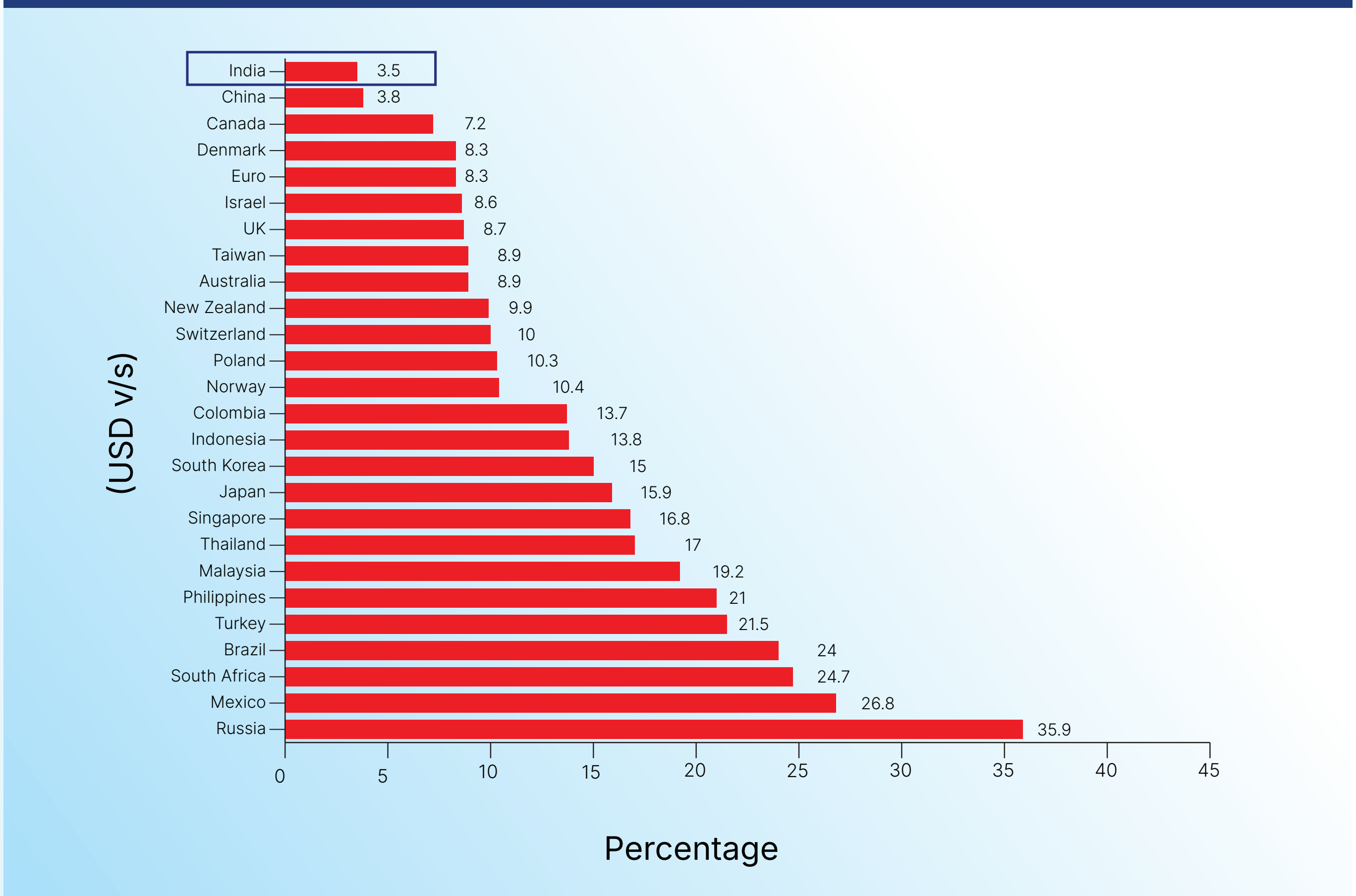
TOP 10 AND BOTTOM 10 CURRENCY RETURNS (YEAR TO DATE)

Source: Bloomberg & Kotak Securities

RBI's measures on Rupee volatility

The Reserve Bank of India (RBI) has successfully maintained low volatility in the Rupee, a feat that aligns with its explicit policy objective. The Rupee remains among the least volatile global currencies, thanks to RBI's proactive interventions over the years. Low currency volatility is critical for macroeconomic stability, encouraging both investment inflows and predictable policymaking. Investors are more comfortable committing capital when the risk premium is manageable, and stability fosters a conducive investment climate.

YTD VOLATILITY (%)



Source: Bloomberg & Kotak Securities

To maintain this stability, the RBI has actively intervened across spot, forward, offshore, and exchange markets.

RBI SPOT AND FORWARD INTERVENTION IN USD BILLION

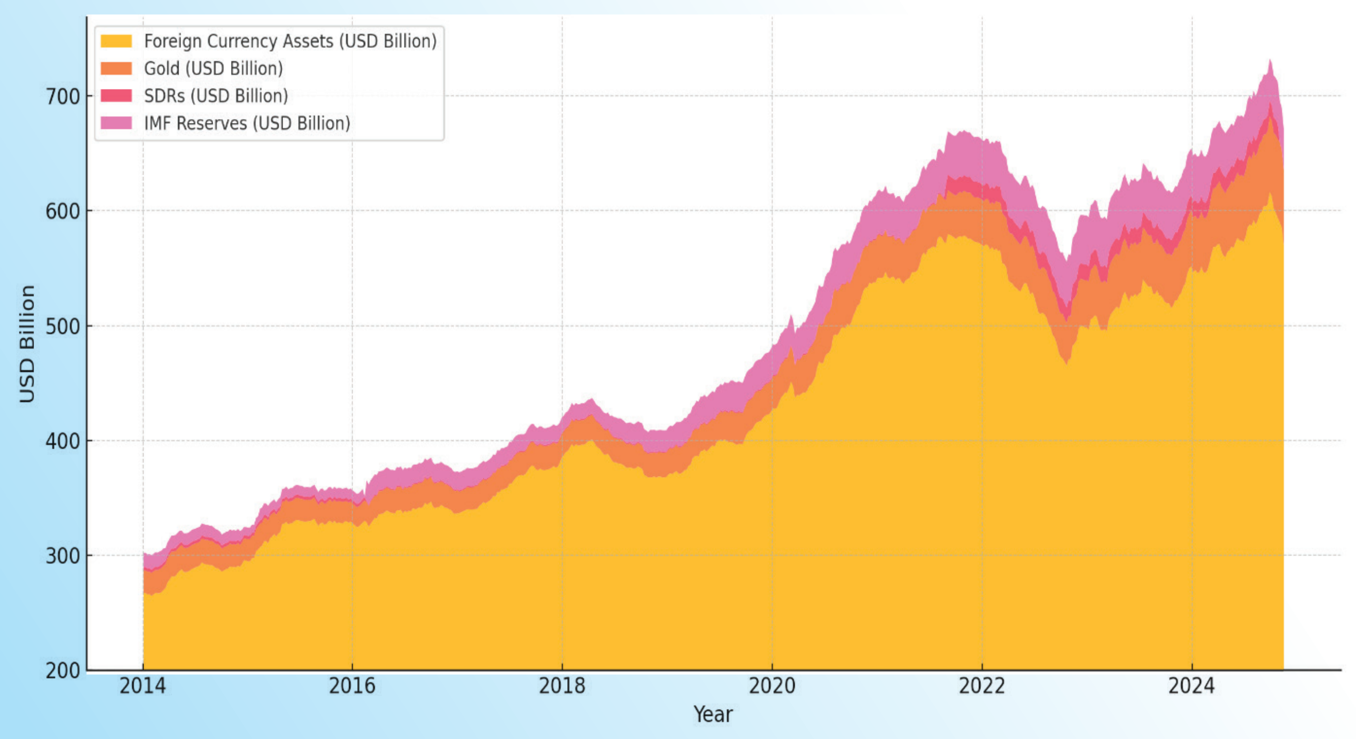
Year	Net Intervention in Spot and Forward (USD Billion)	Gross Intervention in Spot and Forward (USD Billion)
2014	-1	198
2015	31	136
2016	7	147
2017	56	92
2018	-42	126
2019	39	79
2020	125	203
2021	42	293
2022	-84	443
2023	9	360
2024	15	284

Source: RBI & Kotak Securities

Foreign reserves dynamics

Thanks to these proactive interventions, the RBI has accumulated nearly USD 660 billion in reserves, with the figure crossing the USD 700 billion mark briefly in October. However, a combination of valuation losses from Dollar strength and active Dollar sales to curb Rupee depreciation led to a 7-8% dip in reserves over the past 1.5 months. These fluctuations highlight the balancing act required to manage both currency stability and reserve adequacy.

TREND OF FOREIGN EXCHANGE RESERVE COMPONENTS (USD BILLION) FROM 2014

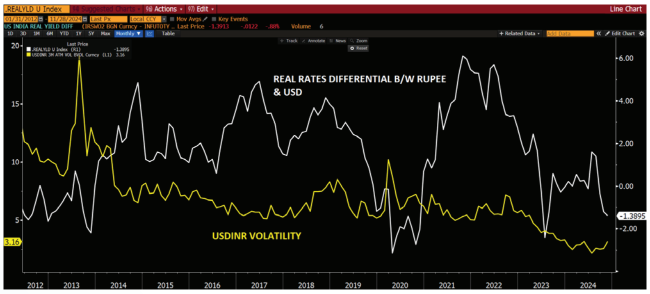


Source: Bloomberg & Kotak Securities

The 2025 outlook - expecting volatility

The last two years have seen exceptionally low volatility in the Rupee. However, 2025 could mark a sharp shift. With Donald Trump set to assume office with an unprecedented mandate for radical reforms, significant disruptions in global trade are expected. We anticipate Trump will be far more aggressive in his second term, employing both tariff and non-tariff barriers to promote US manufacturing and services. Such policies are likely to fracture global trade networks, generating substantial economic uncertainty that could extend into financial markets and drive US Dollar appreciation.

Given the currently subdued volatility and complacency among risk managers, we see a substantial risk of a sharp increase in volatility in the USD/INR market. The negative real interest rate differential between the Rupee and the Dollar compounds this risk, as historical precedents suggest such conditions often usher in heightened volatility.



Source: Bloomberg & Kotak Securities

Source: Bloomberg & Kotak Securities

Global ripple effects

Policy measures originating from the Trump administration are expected to impact major economies, particularly in Europe and China. These developments are likely to introduce volatility premiums across various currency pairs, including USD/INR. Heightened uncertainty in global trade policies tends to have a direct correlation with increased volatility in emerging market currencies, making the Rupee particularly susceptible.

The case for two-way volatility

While we anticipate upward pressure on volatility, it is also plausible that we will see significant two-way movements in the currency markets. Policymakers in economies affected by US policies are unlikely to remain passive, and coordinated responses could mitigate some of the pressure exerted by US trade policies. The Trump administration's aim to reduce government staffing and broad-based expenditure cuts—including defense, medicare, and other federal outlays—could present both opportunities and challenges.

If successful, these cuts could reduce the US fiscal deficit, decrease bureaucratic inefficiencies, and lower taxes—factors that could stimulate the domestic economy and further strengthen the US Dollar. However, higher trade barriers and retaliatory measures from affected countries could counteract these benefits, leading to a fractured global trade environment. Additionally, with the US government being the country's largest employer, significant reductions in public payrolls could negatively impact the broader economy. How these displaced workers are absorbed by the private sector remains uncertain.

The role of the Federal Reserve

Another wildcard is the Federal Reserve's stance. The extent to which the Trump administration might exert influence over the Fed's monetary policy remains unclear. An aggressively hawkish policy from the Fed could further bolster the Dollar, but this might come at the cost of slowing down the broader economy—potentially undermining Trump's onshoring ambitions. Thus, while a strong Dollar may seem advantageous initially, it could hinder competitiveness and prompt the administration to consider weakening measures later in the year, particularly if the Dollar becomes excessively strong.

Strategic considerations for participants

In light of these dynamics, we advise currency and USD/INR traders to prepare for heightened volatility and ensure that hedging strategies are well-structured. The cost of hedging is currently low due to record-low forward premiums and minimal option-implied volatilities, providing a unique opportunity for cost-effective risk management.

We expect USD/INR to trade towards the 86.00/87.00 levels before year-end.

To summarise, the Indian Rupee has displayed resilience amid a challenging global currency landscape, largely due to the RBI's adept management. However, as we head into 2025, the confluence of US policy changes, retaliatory global measures, and the overarching influence of the Federal Reserve is likely to create a much more volatile trading environment. Market participants should be nimble and prepared to navigate this complex landscape, leveraging hedging opportunities while being cognizant of potential policy shifts that could alter the trajectory of the US Dollar and the Rupee

Commodity Outlook

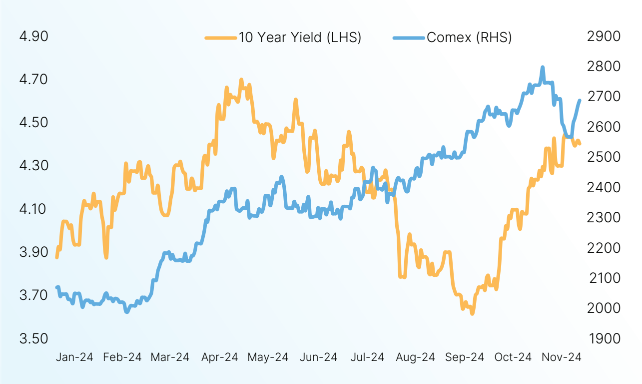
Anindya Banerjee
Head Currency & Commodity Research
Kotak Securities

BULLION

Gold to see modest gains in 2025 after 2024 rally on trimmed rate cut bets

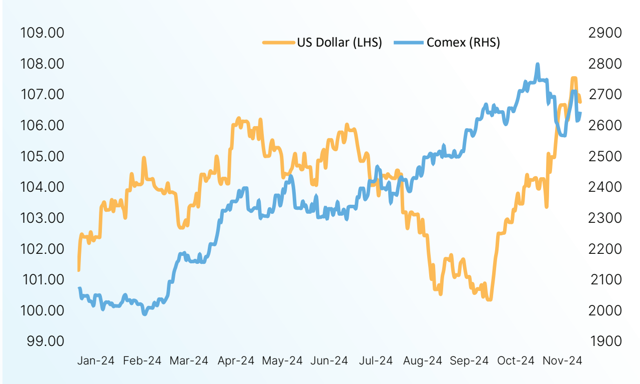
The year 2024 has been a landmark year for gold, with Comex gold surging over 40% from its yearly lows to reach an all-time high of $2,801.8 per ounce in October. This historic rally marks its largest annual gain since 1979. On the domestic front, MCX gold followed suit, climbing over 25% year-to-date due to robust physical demand. The surge has been driven by multiple factors, including the US Federal Reserve's rate cuts, intensifying geopolitical tensions, and unprecedented central bank demand. Despite initial headwinds in January, when gold corrected by 4.4% due to a strong US dollar, high bond yields, and global ETF outflows, it rebounded strongly. Investor interest was sustained amid global uncertainties, including political instability, equity market volatility, and geopolitical risks, which reinforced gold's safe-haven appeal.

GOLD VS US 10 YEAR TREASURY YIELDS



Source- Bloomberg; KS Commodity Research

COMEX GOLD FUTURES VS US DOLLAR



Source- Bloomberg; KS Commodity Research

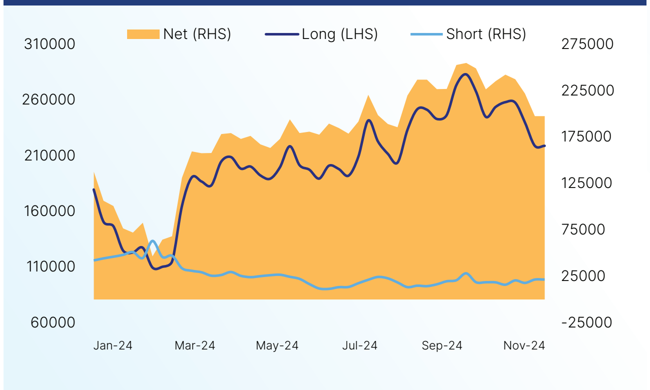
Gold saw the biggest monthly rally of 2024 in March by surging nearly 9%, propelled by expectations of US interest rate cuts, declining Treasury yields, and weakening of the US dollar. Robust retail demand and central bank purchases also played a crucial role, with central banks buying over 1,000 tons of gold annually for the past two years. China emerged as the largest buyer, contributing to the strongest start to a year on record for central bank gold purchases. In tandem, hedge fund activity in March added 285 tons to gold demand, signaling strong market confidence. Domestically, MCX gold prices touched record highs of ₹67,850 per 10 grams, slightly lagging Comex gold due to rupee strength. Indian gold ETFs saw steady inflows, marking the eleventh consecutive month of positive flows in February, while the Reserve Bank of India (RBI) expanded its gold reserves to an all-time high of 817 tons.

Gold entered a consolidation phase from April to July 2024, with prices hovering below $2,450. April witnessed a 6.7% correction, followed by a 7.4% recovery in May, while June remained a relatively quiet month. During this period, easing demand from China contributed to price stagnation as the People's Bank of China paused its 18-month gold-buying streak. Indian gold ETFs experienced outflows in April after 12 uninterrupted months of inflows, reflecting diverging trends in global ETF investments. However, bullish speculative interest surged on the Comex, with net long positions reaching their highest level since before the pandemic, doubling from February to May. This bullish sentiment intensified in July, with net long positions climbing further, as Comex gold broke past consolidation levels, nearing $2,500 per ounce.

A key development in July triggered a significant correction in MCX gold, as prices fell by 9.8% due to a cut in import duty of 9% announced in the Union Budget. This move reduced the landed cost of gold in India, bringing domestic prices down from their all-time high of ₹74,440 to ₹67,400 per 10 grams. However, Comex gold prices resume its momentum, driven by the Federal Reserve's signals of impending interest rate cuts. At the Jackson Hole conference in August, Fed Chair Jerome Powell confirmed a policy shift, resulting in then record-high gold prices of $2,570 by month-end. Gold-backed ETFs saw renewed inflows globally, led by North America, signaling revived investor interest in the precious metal.

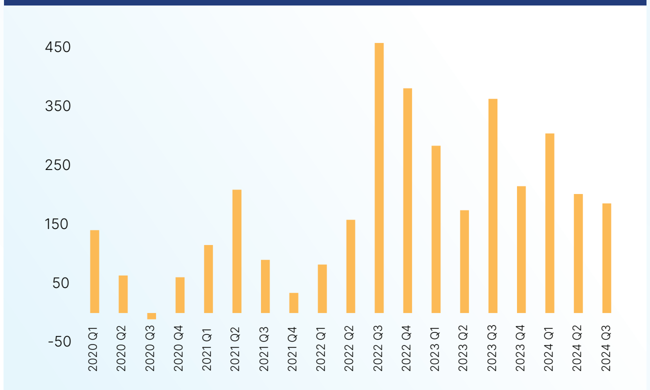
In September 2024, the much-anticipated US interest rate cut materialised, marking the Federal Reserve’s first rate cut since March 2020. The 50-basis-point reduction provided a strong tailwind for gold, propelling prices above $2,700 per ounce. This rally was further supported by heightened geopolitical risks, uncertainty surrounding the upcoming US presidential election, and consistent central bank buying. Notably, gold prices remained resilient despite a stronger US dollar and elevated bond yields, reinforcing its status as a reliable safe-haven asset. The World Gold Council reported a fifth consecutive month of net inflows into global physically-backed gold ETFs in September, underscoring robust investor confidence.

GOLD SPECULATIVE POSITIONS (LOTS)



Source- US CFTC; KS Commodity Research

CENTRAL BANK QUARTERLY GOLD PURCHASES (TONNES)



Source- WGC; KS Commodity Research

The record-breaking rally peaked in October when gold prices surpassed $2,800 per ounce. However, a sharp correction of 9.3% followed in the aftermath of Donald Trump’s decisive re-election victory, which triggered a surge in the US dollar. Despite this correction, gold prices rebounded back above $2,700, underlining gold's resilience as a hedge against economic and geopolitical uncertainties, solidifying its role in diversified investment portfolios. Domestically, Indian buyers leveraged the reduced import duties to strengthen demand, further bolstered by strong festival-season purchasing trends. As the year is ending, gold remains one of the best-performing assets of 2024, posting new all-time highs in US dollars, in almost every month since March. Its stellar performance has been achieved despite competing with risk assets, a stronger dollar, and high bond yields.

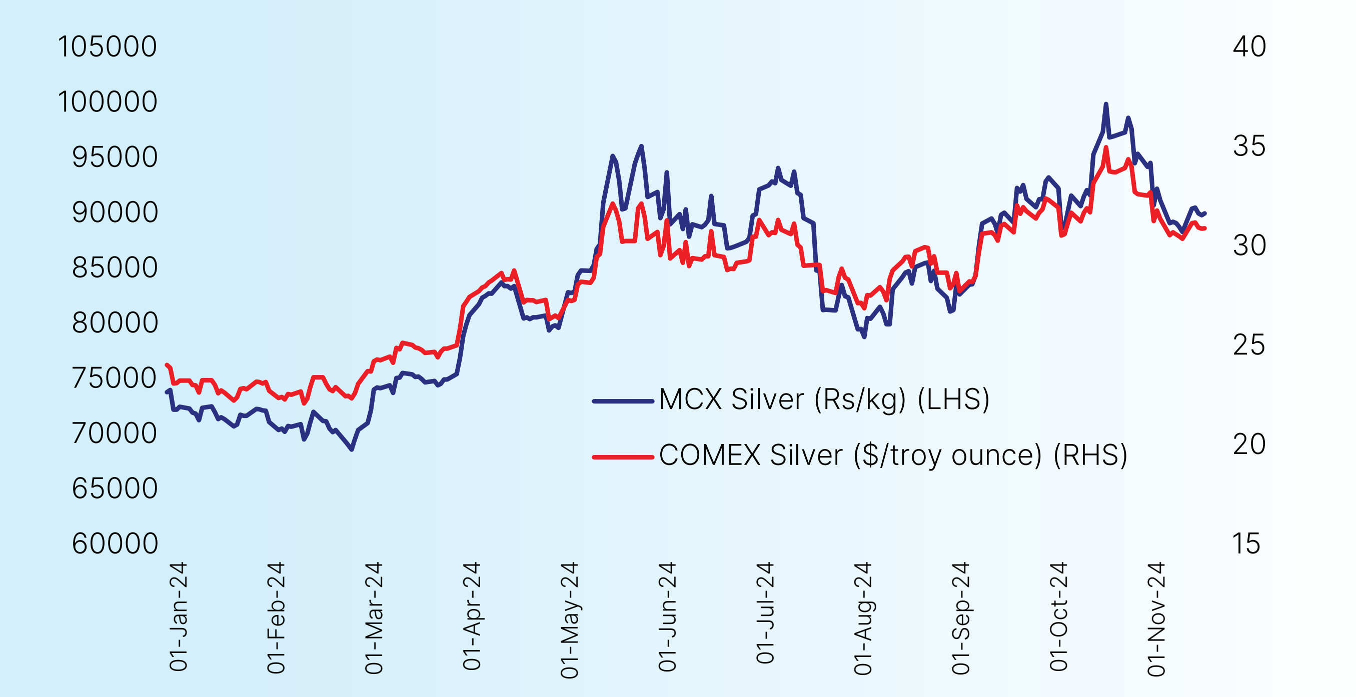
Looking ahead to 2025, several factors suggest continued strength in gold prices as Central Bank buying is expected to persist, driven by de-dollarisation efforts and geopolitical risks. Moreover, resilient demand from Asian markets, particularly in China and India, will further support prices. Additionally, evolving political scenarios, including significant elections and conflicts in the Middle East, are likely to sustain gold's safe-haven demand. Gold’s role as a hedge against inflation, political instability, and economic uncertainty positions it well for the coming year.

However, gold may face headwinds in 2025 as President-elect Trump’s policies of tariffs and tax cuts are seen as inflationary, and hence may prompt the Federal Reserve's to take a measured approach to interest rate cuts. Lower tax rates would also increase the government debt, while tariffs may lead to supply disruptions and hence higher inflation, which would limit the pace of the Federal Reserve interest rates next year. Already, markets have trimmed their expectations for Fed Funds rates between 3.75% and 4.00% that comes by December 2025, compared to between 3% and 4% as per FOMC September projections. This has led to sharp volatility in gold prices as sentiment shifted post Trump’s decisive victory and money managers decreased their bullish gold bets by more than 66K net-long positions or lower by 23% from the year highs. Moreover, higher growth expectations, fiscal deficits, and inflationary pressures from Trump trade policies, could boost dollar and spell trouble for gold prices. Overall, gold may benefit from safe haven bids stemming from escalating Russia-Ukraine conflict, though pace of further gains may be determined by incoming US data and Trump’s trade policy.

Silver set for strong 2025 as renewable energy demand expected to drive growth

COMEX Silver has experienced a remarkable surge of over 59% in 2024, rallying from its February lows of $21.975 per ounce to a 12-year high of $35 in October. Falling interest rates and heightened safe-haven demand have driven this upward momentum, while increased industrial demand and a supply deficit have provided additional support. Silver began the year on a bearish note, declining to a two-month low of $21.975 per ounce in mid-February, amid global economic concerns, particularly regarding China's slowdown. From January highs, prices corrected by 9.5% through February, as a risk-off sentiment bolstered gold, resulting in the gold-silver ratio reaching a 15-month high. During this period, declining ETF holdings and bearish speculative futures positioning added to silver's weakness.

TREND IN MCX AND COMEX SILVER



Source- Bloomberg; KS Commodity Research

However, the tide turned in the subsequent months, with prices surging over 49% from February lows to $32.75 per ounce with green technology fueling industrial demand and looming persistent supply deficits drive prices higher. Moreover, silver price broke out of the range to new multi-year highs on expectations that central banks, notably the Fed, would start reducing interest rates and on increased geopolitical tensions. However, from June to August, silver prices corrected over 19%, falling to $26.50 per ounce due to slowing Chinese economic growth and reduced odds of US interest rate cuts. Subsequently, prices rebounded by 32%, reaching new heights in October 2024 as expectations of Federal Reserve rate cuts resurfaced while the global silver market is set to record a physical deficit for the fourth consecutive year, with a deficit of 182 Million Ounce (Moz), little changed from 2023. This deficit is expected to persist for the foreseeable future.

According to Silver Institute, global silver demand is projected to rise by 1% year-over-year (YoY) in 2024, reaching 1.21 billion ounces, the second-highest level since 2010. Industrial applications lead this growth, as demand expected to increase by 7% to over 700 million ounces (Moz) for the first time on record driven by green economy applications, especially in the photovoltaic (PV) sector, and by growing demand from the automotive industry, which benefits from advancements in vehicle electrification and infrastructure development. Additionally, the rapid adoption of AI technologies has bolstered demand for technological upgrades and infrastructure investments, mitigating declines in consumer electronics.

Silver jewelry and silverware demand are forecast to rise by 5%, with India being a key contributor due to strong sales following an import duty cut and lower silver prices.

DEMAND SUPPLY TREND FOR SILVER MARKET (MOZ)

	2020	2021	2022	2023	2024 E	Chg
Supply						Y/Y
Mine Production	783	829	837	829	837	1.0%
Recycling	164	174	177	179	188	5.0%
Total Supply	958	1006	1018	1009	1026	1.7%
Demand						
Industrial	510	561	588	654	700	7.0%
Photovoltaics	83	89	118	194	232	19.9%
Photography	27	28	28	27	26	-3.7%
Jewelry	151	182	235	203	212	4.4%
Silverware	31	41	74	55	58	5.1%
Net physical investment	208	284	337	243	208	-14.4%
Net Hedging demand	0	4	18	12	3	-75.4%
Silver demand	927	1100	1279	1198	1208	0.8%
Market Balance	31	-94	-261	-189	-182	-3.7%

Data Source: Silver Institute, Metal Focus

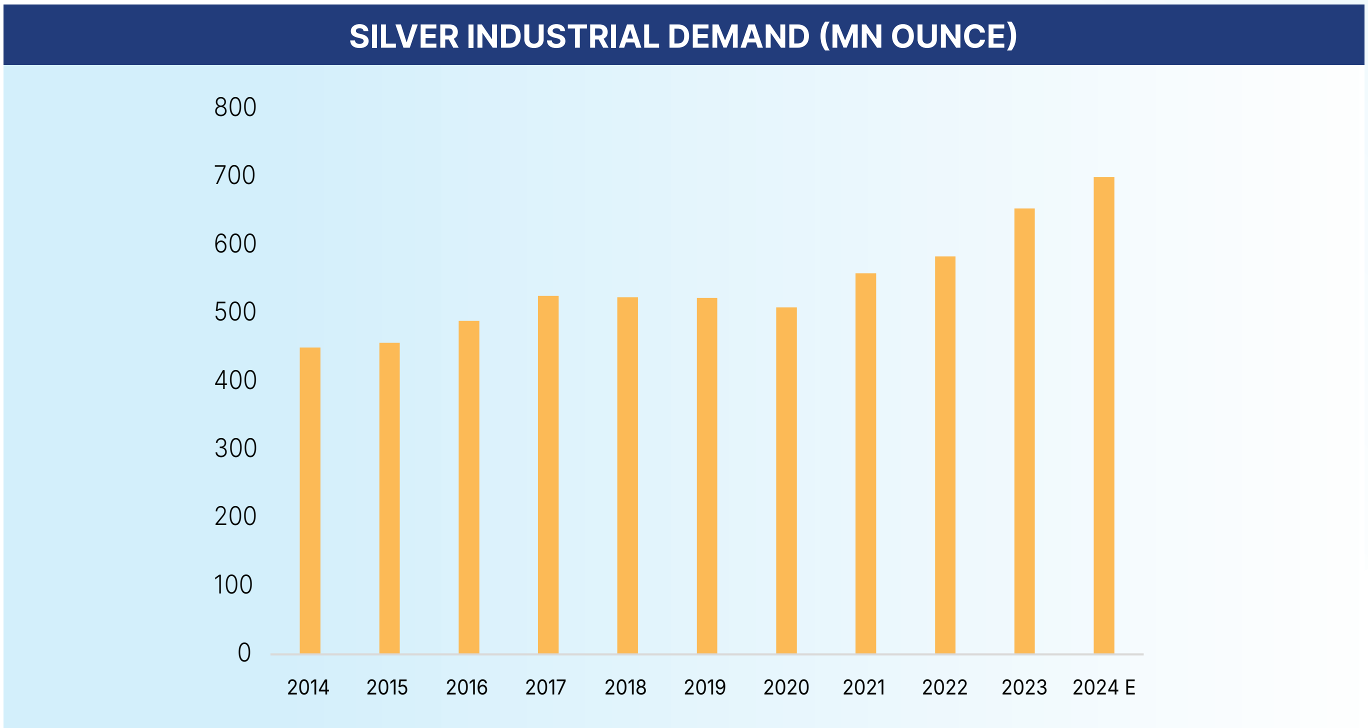
Growth is also supported by higher jewelry consumption in the US and exports from Asia and Europe. However, physical investment is expected to decline by 15%, hitting a four-year low of 208Moz, as US coin and bar sales fall sharply amid a lack of new crises. Meanwhile, India anticipates stronger physical investment, buoyed by bullish price expectations and reduced import duties.

On the supply side, global silver mine production is estimated to grow by 1% YoY to 837 Moz, led by increased output from Mexico, Chile, and the US Recycling is also expected to grow by 5% to a 12-year high, driven by price-sensitive sectors such as western silverware scrap. Despite this, the market is set to experience a 182Moz deficit, consistent with 2023 and marking the fourth consecutive year of shortfall.

Investment interest in silver remains strong, with exchange-traded products experiencing their first annual inflows in three years, supported by expectations of Federal Reserve rate cuts and dollar weakness. This sustained physical deficit, alongside high demand from industrial and investment sectors, underscores silver's enduring appeal in 2024.

After reaching a 12-year high of over $35 per ounce in October 2024, silver prices have entered a correction phase of over 15% in three weeks amid profit-taking and also impacted by economic developments in China, where recent measures to stimulate growth have fallen short of expectations. The Chinese government's announcement of a 10 trillion yuan debt package aimed at boosting local financing and economic stability disappointed markets, as it lacked direct stimulus components. This has negatively affected industrial metals, including silver, which is essential for photovoltaic (PV) cells in solar energy production. Moreover, the silver demand has been further clouded by Chinese solar panel manufacturers scaling back production. Concerns over potential US tariffs on Chinese solar imports, have heightened uncertainty about China's economic recovery.

Currently, silver is considered undervalued and benefits from its versatile applications across industrial and investment sectors may drive prices further in the coming years. The Federal Reserve and the European Central Bank have initiated rate cuts to address economic slowdowns, boosting commodity demand. A significant driver of silver demand is its role in green energy and technological advancements is growing strong. Moreover, Industrial demand, particularly from solar panels,



Source- Bloomberg; KS Commodity Research

electric vehicles, and 5G technology, continues to expand as global efforts to adopt sustainable energy solutions intensify. The rise of the Internet of Things (IoT) and OLED lighting further underscores silver's importance in modern technology.

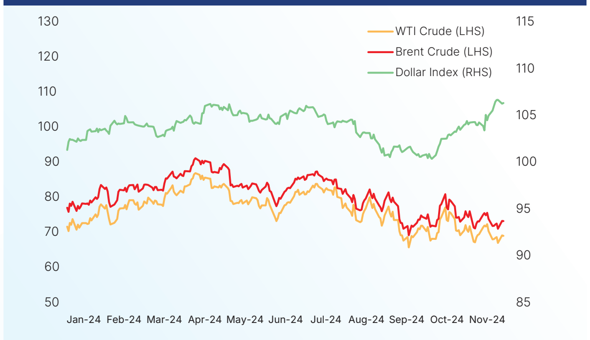
Additionally, increased demand for silverware, jewelry, and consumer electronics strengthens the outlook for silver consumption. With robust industrial applications leading the way, the silver market is expected to face a substantial deficit in 2024 as per the demand supply equations published by the Silver Institute. This underscores the metal's critical role in both traditional and emerging markets, making it a focal point for long-term investment and industrial strategies. Silver's strong performance in 2024 and its promising outlook for 2025 highlight its unique position in the precious metals market. While gold retains its status as a safe-haven asset, silver's industrial applications and supply-demand dynamics position it as a critical commodity for the green economy. As the world continues its transition toward renewable energy and technological modernisation, silver is poised to shine even brighter in the years to come.

CRUDE OIL

Oil prices may face pressure in 2025 amid unfavorable supply-demand dynamics

Crude oil prices started the year 2024 on a positive note, supported by OPEC+ output cuts and optimism surrounding economic recovery. Supply risks from the Middle East and the Russia-Ukraine conflict kept markets on edge over potential disruptions. As a result, time spreads widened, signaling tighter physical market conditions, while attacks on ships in the Red Sea further added to transport costs.

TREND IN CRUDE OIL VS DOLLAR INDEX

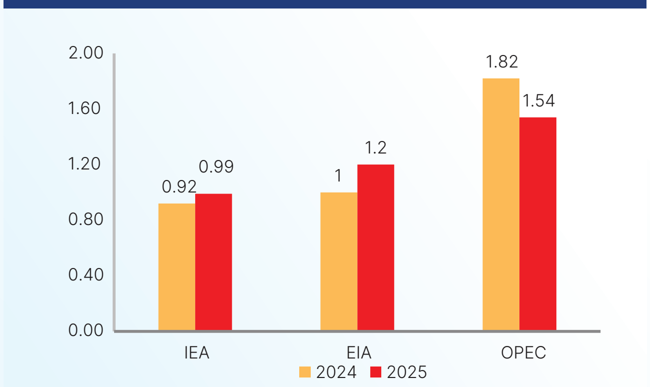


Source- Bloomberg, KS Commodity Research

After gaining momentum in the first quarter, prices stabilised following a rise to a five-and-a-half-month high of $87.67 per barrel in April. Oil prices slipped in April and May due to the fading risk premium amid easing tensions between Israel and Iran, expectations of delays in US rate cuts, and hopes for a potential ceasefire in the Middle East. OPEC+'s plans to gradually phase out some of its voluntary output cuts added further pressure. OPEC cut output by 5.86 million barrels per day, or about 5.7% of global demand, in a series of steps agreed since 2022 to support the market. A renewed wave of optimism emerged in June, as tensions between Israel and Hezbollah flared and expectations for US rate cuts rose, driven by softening inflation and peak summer fuel consumption.

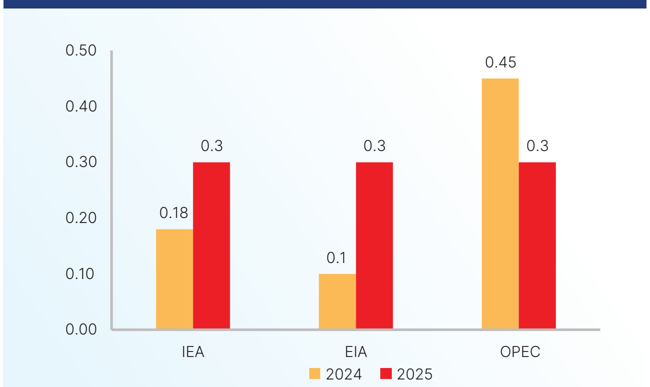
However, positivity was short lived and oil prices saw consecutive declines in the following three months, fueled by concerns over weak demand from China, minimal impact from Hurricane Beryl, and subdued industrial activity in key oil-consuming countries. Brief recoveries were seen due to production disruptions in Libya, where protests led to the shutdown of the country's largest, Sharara oil field. However, the resolution of the political standoff allowed Libyan production to climb above 1 million barrels per day (bpd) in October, pushing OPEC+ output to an estimated 40.57 million barrels per day, a 140,000 b/d gain on September, adding further pressure on prices.

WORLD OIL DEMAND GROWTH EXPECTED TO DROP SHARPLY FROM 2 MN BPD IN 2023



Source: EIA, IEA, OPEC, KS Commodity Research

CHINESE OIL DEMAND GROWTH FORECAST TO SLOW FROM 0.7 MN BPD IN 2023



Source: EIA, IEA, OPEC, KS Commodity Research

October was marked by significant volatility. A modest rise above $78 per barrel on fears of potential supply disruptions in the Middle East and an approaching hurricane was offset by the lack of concrete fiscal stimulus from China. By mid-October, crude prices saw a sharper decline, dipping below $69 per barrel, weighed down by Israel's focus on military targets in Iran, reduced demand projections from major oil agencies, lower refinery activity in China, and the resumption of Libyan production. Losses deepened by the end of October, with prices falling below $67 per barrel. However, easing fears of an all-out Israel-Iran war, OPEC+'s decision to delay a planned production increase of 180,000 bpd by one month, and ongoing tensions in the Middle East helped prices recover slightly, closing the month with a modest uptick.

OPEC revised its global oil demand growth forecast for 2024 and 2025, citing a weaker outlook for Chinese demand. The cartel now expects global oil demand to grow by 1.82 million bpd this year, down by 107,000 bpd from last month's forecast. For 2025, OPEC reduced its growth projection by 103,000 bpd, now expecting 1.54 million bpd of annual growth, down from the 1.64 million bpd previously projected. This revision is largely due to the downward adjustment in China's oil demand growth, which is now expected to increase by 450,000 bpd this year, down from the prior forecast of 580,000 bpd.

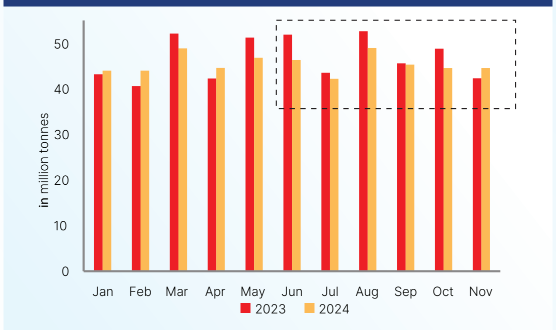
The US Energy Information Administration (EIA) raised its global oil output forecast for 2024 to 102.6 million bpd, up from 102.5 million bpd, and expects production to increase to 104.7 million bpd in 2025, up from a previous forecast of 104.5 million bpd.

The International Energy Agency (IEA) warned that demand growth in the coming years will be much lower than in previous periods, leading to a global oil surplus of more than 1 million barrels per day in 2025, even if OPEC+ cuts remain in place. This is due to weak Chinese economic growth and rising production from the United States and other non-OPEC producers. In general, the global oil market in 2024 and 2025 is expected to face slower demand growth as key regions, notably China and the OECD, grapple with economic challenges and energy transitions. However, the market is expected to remain adequately supplied, given OPEC+'s high spare production capacity and strong global oil stocks. As production outside of OPEC+ grows, the supply-demand balance will continue to shift, with refining margins coming under pressure due to rising product inventories.

Oil prices remained highly volatile in the fourth quarter. Tighter sanctions on oil exports from Iran and Venezuela, coupled with a significant reduction in US oil output due to Hurricane Rafael, pushed prices towards $73 per barrel in early November. Also, US crude oil inventories currently stand at 429.7 million barrels, about 4% below the five year average for this time of year. Prices then retreated sharply below $67 per barrel in the second week of November, as investor sentiment was dampened by China's recently announced debt swap package, which raised doubts about its effectiveness in stimulating the economy. Additionally, former President Donald Trump's commanding victory in the 2024 US presidential election led to a sharp rise in the US dollar, as expectations for Fed rate cuts diminished amid speculation of potential tax cuts and trade tariffs under the new administration.

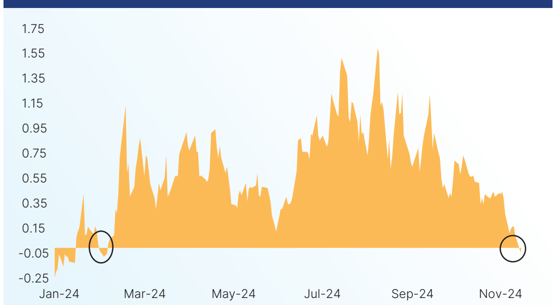
In China, crude oil surplus nearly halved in October, not due to a rise in demand, but because of a decline in imports and refinery runs. Chinese crude oil imports saw their sixth consecutive monthly decline yoy, while refinery run rates fell for the seventh straight month in October. Beyond disappointment over stimulus measures, this demand weakness could also be attributed to a structural shift underway, with electric vehicles (Evs) and hybrids cutting into gasoline demand. The ongoing development of battery-powered heavy vehicles is expected to accelerate this trend in the coming years. According to data released by the China Association of Automobile Manufacturers (CAAM), China's NEV sales reached a record high of 1.43 million units in October, surpassing September's previous record of 1,287,000 units, and showing NEV penetration was 46.8 percent in October, up from 45.8 percent in September and up from 33.5 percent a year earlier.

CHINESE CRUDE OIL IMPORTS SAW YOY DECLINES IN THE LAST SIX MONTHS



Source: GAC, KS Commodity Research

WTI PROMPT SPREAD SWITCHING TO CONTANGO SIGNALS GLUT



Source- Bloomberg; KS Commodity Research

This bearish sentiment also reflected in WTI's prompt spread which slipped into bearish contango structure for the first time since February. Prompt spread is price difference between futures for immediate delivery and those a month later. At its lowest, WTI December 2024 – January 2025 spread traded at a discount of 5 cents a barrel before settling at a discount of 1 cent. However, intense Russia-Ukraine conflict and ongoing tensions in the Middle East pushed the spread back into backwardation soon.

Oil markets are currently navigating a complex mix of factors, with some key influences counteracting each other. On the supply side, OPEC+ has reportedly delayed its planned increase in output, which would have unwound its voluntary production cuts of 2.2 million barrels per day (bpd) in 2025. This delay aims to avoid worsening the already fragile supply-demand balance and to prevent oil sentiment from deteriorating further. OPEC+ is reportedly pushing back the 180,000 bpd increase planned for January, with additional hikes also under review due to concerns about a global oil oversupply.

On the geopolitical front, a significant 60-day ceasefire deal between Israel and Hezbollah, mediated by the US, has opened the door for a potential resolution to the 13-month-long conflict. In addition, US President Joe Biden is working to secure a ceasefire between Israel and Hamas with the help of Egypt, Qatar, and Turkey. These diplomatic efforts are helping to ease tensions in the Middle East, a region critical to global oil supply, which in turn is providing some support to oil prices.

Former President Donald Trump has also weighed in with his continued support for the oil and gas sector, pledging to ease the process for companies to secure drilling leases and build essential infrastructure. This has fueled expectations of increased US oil production in the near term, which could have a significant impact on global oil prices, particularly as the US remains one of the world's top oil producers.

A key short-term factor supporting oil prices is the ongoing Russia-Ukraine conflict, which continues to heighten concerns about disruptions to global oil supply. As one of the largest oil producers, Russia's output of nearly 9 million bpd is vital to the global market. Any disruption to Russia's oil infrastructure, whether due to direct attacks or ongoing sanctions, could create significant uncertainty, keeping traders on high alert.

Additionally, Trump's plans to impose 25% tariffs on all products from Mexico and Canada, combined with fears of stricter sanctions, could provide some additional support for oil prices. However, despite these factors, oil prices will likely need additional positive triggers to sustain higher levels, as they are currently under pressure from weak supply-demand fundamentals.

BASE METALS

Copper set for more volatile moves in 2025 amid China's economic stress and Trump 2.0 policies

After two consecutive years of declines, copper is poised for modest gains in 2024, despite sharp volatility, largely driven by concerns about the Chinese economy. Optimism surrounding fiscal support measures from China, supply constraints, and declining inventories in the latter half of the year have provided a much-needed cushion for the red metal. Additionally, strong demand from emerging industries such as electric vehicles and renewable energy has bolstered medium-to-long-term demand prospects.

The London Metal Exchange (LME) copper began the year weakly due to concerns over global manufacturing and construction activity, as well as uncertainty regarding the US Federal Reserve's interest rate outlook. In February, copper prices fell to $8,127 per tonne, the lowest level since mid-November, as measures taken by China—from broader trading curbs to a pledge by the nation's sovereign wealth fund to boost equity holdings—failed to impress markets. However, prices began to recover in late February, surging above $9,100 per tonne by mid-March. This rally was fueled by tightness in ore supply due to mine disruptions and a surge in global smelting capacity, which pushed China's copper processing fees to decade lows.

PRICE MOVE IN COPPER IN 2024 (YTD)

Source- Bloomberg, KS Commodity Research

The exceptionally low copper concentrate charges, the lowest in at least a decade, were mainly attributed to supply setbacks at global mines and the rapid expansion of copper smelting capacity. The closure of First Quantum's Cobre Panama mine, which accounts for 1.5% of global copper supply, along with Anglo American's decision to reduce its 2024 output guidance in December 2023, were the initial triggers for these supply shocks. In line with this, China's top smelters agreed to lower operation rates, adjust maintenance plans, and postpone new projects. Copper prices received a significant boost when Chinese smelters adhered to pledges to cut output by 5% to 10% in response to tighter concentrate supply and overcapacity.

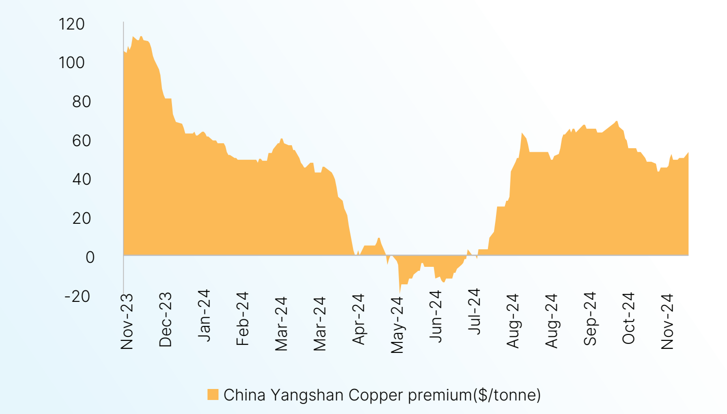
Investor interest in copper surged in mid-May, driven by a short squeeze on the COMEX, pushing the metal to record highs on the LME, COMEX, and Shanghai exchanges. LME copper hit an all-time high of $11,104 per tonne in May, while MCX copper surged to a record high of Rs 945.9 per kg. However, prices retreated sharply to $10,200 per tonne by late May, as China's copper fabricators struggled with high prices and subdued demand for imported copper. Over 60% of copper rod producers in China had reduced or halted production due to sluggish sales.

Copper continued its extended weakness in June, with prices slipping below $9,500 per tonne for the first time since mid-April. This decline was driven by rising expectations of a delayed rate cut in the US amid resilient economic data and hawkish comments from several Fed officials. Prices faced sharp selling pressure in July, falling to $8,714 per tonne, the lowest since March, amid concerns about a potential hard landing for the US economy and weakening demand from China. This bearish sentiment was compounded by a significant increase in LME copper inventories and a reduction in Chinese imports. LME copper stocks surged by 20% in the last week of July and increased another 34% in August, pushing total stocks to their highest level in five years, while cancelled warrants remained below 10%, indicating ample supplies.

Support finally came in September, with the Federal Reserve implementing an aggressive 50-basis-point rate cut and China's Politburo pledging fiscal measures to stimulate growth. This pushed copper prices above $10,000 per tonne. However, prices pulled back when China's top economic planner concluded its meetings without announcing new commitments to boost government spending. Prices weakened further in November, as China's long-anticipated stimulus package—aimed at supporting the slowing economy—was seen as insufficient to counter the looming threat of US trade tariffs. Additionally, China's National People's Congress (NPC) announced a 6 trillion yuan ($839 billion) debt swap program aimed at alleviating local government debt over the next three years.

Production dynamics shifted, with the Democratic Republic of the Congo (DRC) overtaking Peru as the second-largest producer of copper. The DRC produced about 2.84 million tons of copper in 2023, while Peru's output was 2.76 million tons. Preliminary ICSG data shows that refined output in the DRC grew by 13% in the first nine months of 2024, due to the continued ramp-up of new and expanded electrowinning plants (SX-EW). The DRC government expects production to grow by 4.5% in 2024.

CHINESE IMPORT PREMIUMS REBOUNDED IN LATE Q3

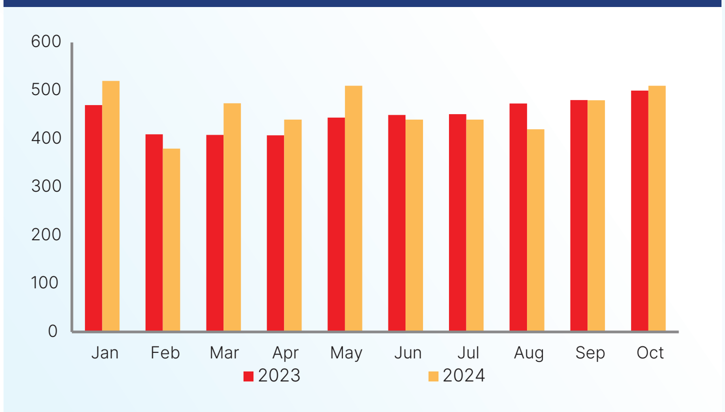


Source- Bloomberg, KS Commodity Research

Copper production in the DRC is expected to continue rising, particularly with the expansion of the Kamoa-Kakula mine, the country's largest copper project. Chinese mining company CMOC Group Ltd. also plans to more than double copper output from its DRC mines over the next four years. CMOC's copper output in the first nine months of 2024 rose 78%, and is expected to reach 600,000 tons this year, up from 420,000 tons in 2023. On the other hand, Peru's government recently lowered its 2024 copper production forecast to 2.8 million tons, down from around 3 million tons initially projected. Peru's copper output from January to September was 1.99 million tons, a 0.6% decline compared to the same period last year. Chile's copper production is expected to rise by 3% in 2024 to 5.41 million metric tons, short of the previously estimated 5.5 million tons, but is projected to grow by 6% to 5.7 million tons in 2025.

China's unwrought copper imports rose by 2.4% from January to October 2024, totaling 4.6 million tonnes, with demand picking up in September and October due to improved seasonal demand and consumption outlook. This was reflected in the Yangshan copper premium, which surged to a 2024 high of $69 per tonne in September, driven by notable inventory drawdowns in major markets like Shanghai, Guangdong, and in warehouses tracked by the Shanghai Futures Exchange (ShFE). ShFE stocks fell to 140,000 tonnes by the end of September from a four-year high of 336,964 tonnes in June, and have continued to decline, reaching 120,000 tonnes in November. Meanwhile, LME copper stocks have surged by 61% this year, although they currently stand below 270,000 tonnes, down from the five-year high of 322,950 tonnes in August.

SEASONAL DEMAND PUSHED IMPORTS HIGHER IN SEP-OCT



Source- Bloomberg, KS Commodity Research

Overall, copper may continue to experience volatile movements due to uncertainty regarding China's economic recovery, Trump's policies, and lingering geopolitical risks. Investors are concerned that potential tax cuts and trade tariffs under a Trump administration could renew inflationary pressures and delay the Fed's pace of rate cuts.

Markets remain optimistic about the long-term demand for copper, driven by emerging technologies and energy systems. Mining giant BHP expects global copper demand to continue soaring, with consumption rising by an additional 1 million tonnes per year on average through 2035. However, challenges in the short term persist. Deflationary pressures and weak consumer spending in China have raised concerns about the government's ability to meet its full-year growth target of around 5% without more substantial intervention.

Moreover, the extended recovery in the US dollar, fueled by expectations of escalating trade tensions under a potential second Trump presidency, could negatively impact copper. There is also concern that Trump's policies might prompt Federal Reserve Chair Jerome Powell to adopt a more cautious approach to interest rate cuts next year, which would not bode well for copper prices. Recently, S&P Global Ratings lowered China's GDP growth forecast to 4.1% in 2025 and 3.8% in 2026, down by 0.2 and 0.7 percentage points, respectively, from its September projections, reflecting concerns over renewed tariff threats. Now, with Trump's pledge to impose an additional 10% tariff on Chinese goods, his first specific threat since winning the election, these developments could intensify short-term challenges and long-term uncertainties, further weighing on the health of "Dr. Copper."

Zinc

Zinc remarkable turnaround from underperformer to best performer in metals in 2024

From one of the worst-performing metals to potentially the best performing base metal of 2024, zinc's price trajectory has been nothing short of extraordinary. On the global stage, zinc prices on the London Metal Exchange (LME) climbed over 13%, while the Multi Commodity Exchange (MCX) saw an impressive rise of more than 21%. After a challenging start to the year, with prices under pressure, the market began to recover in February. This resurgence gained momentum, eventually pushing prices to multi-month highs.

ZINC PRICE MOVE IN 2024

Source- Bloomberg, KS Commodity Research

The global zinc market in 2024 was marked by notable fluctuations, driven by a combination of supply constraints, geopolitical tensions, and strategic industry adjustments. The smelting sector faced significant headwinds, including volatile raw material supplies, escalating energy costs, which collectively reshaped operational dynamics across the industry.

Simultaneously, the steel industry—a major consumer of zinc, witnessed a mixed landscape. Regional disparities in demand and supply were shaped by global economic conditions, large-scale infrastructure projects, and evolving industrial activities. These factors directly influenced zinc consumption, primarily in its role as a galvanizing agent to protect steel from corrosion. Early in the year, weak Chinese PMI data and the Federal Reserve's "higher-for-longer" interest rate policy weighed on industrial activity, creating an initial drag on prices.

Despite these challenges, zinc demonstrated resilience, reinforcing its position as a critical industrial metal in the global market. Supply Constraints in Zinc mine production saw a significant contraction in 2024, marking the third consecutive year of decline. Global output dropped by 3.4% in the first half, largely due to depleting high-grade reserves in regions such as South America and Australia. Additional operational disruptions, including labor strikes in South Africa and heavy rainfall in Peru, further exacerbated the supply crunch. Rising inflation and increased energy costs forced many miners to scale back operations. Geopolitical tensions and sanctions also disrupted concentrate flows, severely affecting smelters in Europe and Asia.

The challenges for the Smelter Production Adjustments is the limited availability of zinc concentrates in 2024 forced smelters, particularly in China, to reassess their operations. Reduced treatment charges, driven by fierce competition for scarce concentrates, put significant pressure on smelter margins. In response, many Chinese smelters implemented production cuts or temporary shutdowns, collectively reducing output by nearly 10% during Q3 2024. Meanwhile, Europe faced its own set of challenges as soaring energy costs, exacerbated by natural gas shortages, severely impacted the economic viability of zinc smelting operations.

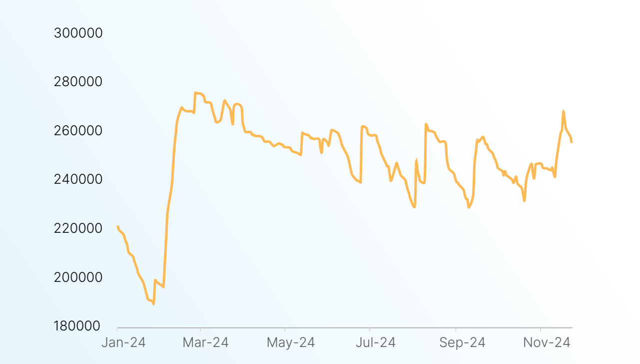
In August 2024, leading Chinese smelters gathered to address these pressing issues. The China Zinc Smelter Purchase Team (CZSPT), representing 14 major smelters responsible for around 70% of the country's refined zinc output, proposed key measures to stabilize the market. These included reducing concentrate intake by approximately 1 million tonnes for the year, increasing the use of slag, and introducing a floor price mechanism for treatment charges to guide spot concentrate purchases. These strategies aimed to mitigate financial losses and balance market supply amidst raw material shortages and declining demand.

European smelters also faced significant difficulties due to skyrocketing energy costs, driven by reduced Russian gas supplies amid geopolitical tensions. Producers like Nyrstar announced further capacity reductions, intensifying supply-side constraints. These production cuts, both in China and Europe, further tightened the zinc market, fueling price volatility and disrupting global supply chains.

Moreover, Zinc demand closely tied to the steel industry due to its essential role in galvanization faced significant challenges in 2024. The ongoing real estate crisis in China reduced construction activity, leading to weakened steel demand and lower zinc consumption. Globally, while infrastructure spending in Western economies showed some improvement, it failed to fully counteract the slowdown in Asia. In addition, the automotive industry, another major consumer of galvanized steel, presented mixed results. Growth in the electric vehicle (EV) segment drove demand, but supply chain disruptions and slower adoption rates in developing economies constrained zinc usage in the sector.

As of November 2024, the global steel market experienced a slight dip in demand. The World Steel Association projected a 0.9% decline for the year, bringing demand to 1,751 million tonnes. On the production side, global output remained strong, with China maintaining high levels of production. However, Europe's steel industry grappled with rising energy costs and

LME ZINC STOCKS REMAINED SLIGHTLY ELEVATED THROUGHOUT 2024



Source: Bloomberg; KS Commodity Research

increasing competition from imports, forcing some producers to adjust their output. These factors collectively influenced zinc demand and shaped its market dynamics in 2024.

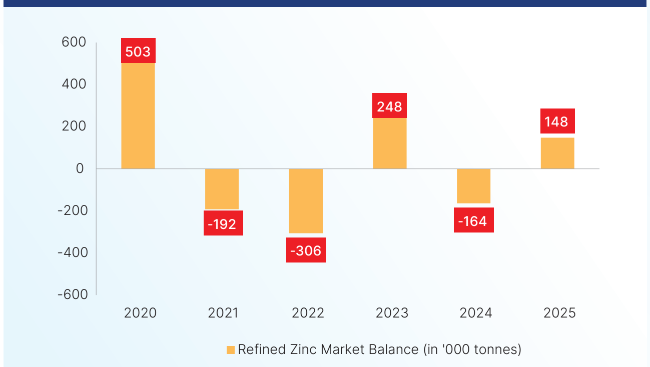
Despite concentrate shortages, inventories of refined zinc on the London Metal Exchange (LME) remained slightly elevated throughout 2024. This was partly due to aggressive exports of surplus refined zinc from China, which accumulated in global warehouses. Meanwhile, delayed infrastructure projects and weakened demand for galvanized steel contributed to an inventory overhang. This paradox of tight raw material supplies co-existing with a surplus of refined zinc exposed inefficiencies in the supply chain, applying downward pressure on prices.

The US dollar appreciated significantly, this strength in the currency reduced purchasing power in other currencies, leading to decreased global demand for zinc. Emerging markets, in particular, faced challenges as the stronger dollar increased the cost of imports and debt servicing, further dampening demand.

Central banks worldwide, including the Federal Reserve, maintained elevated interest rates to combat persistent inflation. These high borrowing costs curtailed industrial activity. Sectors such as construction and manufacturing, which are significant consumers of zinc, experienced reduced investment and output, thereby lowering demand for base metals.

Ongoing trade disputes, particularly involving China, and export restrictions by key producers disrupted global supply chains. These disruptions led to market uncertainty and price volatility. For instance, China's economic policies and trade relations influenced commodity markets, affecting the availability and pricing of metals like zinc.

REFINED ZINC MARKET TO TURN INTO SURPLUS IN 2025



Source: Bloomberg; KS Commodity Research

In October 2024, the International Lead and Zinc Study Group (ILZSG) revised its forecast for the global zinc market, projecting a deficit of 164,000 metric tons for the year, a significant shift from the previously anticipated surplus of 56,000 metric tons. This adjustment was attributed to a decline in mine output, marking the third consecutive year of reduced production. The ILZSG highlighted that unfavorable smelter treatment terms and a downturn in China's property sector, which dampened refined zinc production, were key contributors to this shortfall. Additionally, the suspension of major European mines, such as Tara in Ireland and Aljustrel in Portugal, further constrained supply. Looking ahead, the ILZSG expressed optimism for 2025, anticipating increased production from restarts and new projects, which could potentially lead to a market surplus, provided there are no significant delays or disruptions.

The Zinc market is set for a dynamic year in 2025, continuing the recovery momentum built in 2024. While challenges such as supply constraints, high energy costs, and sluggish demand from key sectors like construction and manufacturing persist, the market's fundamentals indicate potential for growth, supported by emerging opportunities.

On the supply front, stabilisation is expected as new mining projects commence operations and previously halted activities resume. The International Lead and Zinc Study Group (ILZSG) projects increased production, particularly in areas where geopolitical tensions and operational disruptions have subsided. However, high energy costs in Europe remain a significant factor, potentially restricting smelting capacities.

Headwinds, including the strengthening US dollar, may limit the upside for zinc. The dollar index recently surged above 108, highest in two years, poses a challenge for dollar-priced commodities like zinc by dampening global demand. Meanwhile, China's economic trajectory remains a pivotal factor. Mixed signals, including sluggish industrial output, persistent property market struggles, and a moderate GDP growth of 4.6% in Q3 2024, highlight an uneven recovery. Despite aggressive fiscal stimulus measures, uncertainty surrounds their effectiveness, though potential rate cuts by the People's Bank of China and the US Federal Reserve could provide a cushion.

Additionally, the World Steel Association projects global steel demand to decline by 0.9% in 2024, reaching 1,751 Mt, marking a third consecutive year of contraction. The association forecasts a 3.0% drop in Chinese steel demand in 2024, followed by a further 1.0% decline in 2025, as the ongoing downturn in the domestic real estate sector continues to hurt steel demand in China.

Overall, while zinc prices are expected to face pressure from these ongoing challenges, global monetary policies and China's economic recovery efforts will play a critical role in determining the pace of price gains in 2025.

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