

Skate to Where the Puck Is Going – Implications of Chinese and US Policies for Commodities

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Introduction

The world's two largest economies—China and the United States—are actively fashioning a new policy backdrop that is likely to be highly supportive of continued global inflation and also jump start global commodity demand. In China, policymakers have launched a broad reflation campaign, combining monetary easing and fiscal stimulus to counter deflation and stimulate domestic demand. With a 5% Gross Domestic Product (GDP) growth target for 2025,¹ this reflation campaign targeting infrastructure spending and stimulus-backed consumption is primed to generate strong demand for metals, energy and agriculture. China's role as the marginal price setter across numerous commodity markets, given its consumption of approximately 40% of the world's commodities,² means its deliberate push for reflation could mark a major inflection point, with the potential to structurally reprice commodities.

At the same time, in the US, fiscal policy remains expansionary, with major public investments aiming to drive real GDP growth across energy, infrastructure and manufacturing sectors, which should amplify competition for scarce commodities globally. Meanwhile, inflation remains above target, with tariff-related price pressures beginning to filter through and a significantly weaker US dollar reflecting what appears to be a weak-dollar bias from the current administration. With the Federal Reserve (Fed) expected to resume reducing target rates in 2025 and a more dovish successor to be appointed as Chair following the 2026 leadership transition at the latest, monetary policy in both countries could soon be working in the same direction, leading to a sustained period of elevated inflation from the decade prior to the COVID-19 pandemic.

This alignment of expansionary policy in both the US and China marks a shift in the macro environment toward a world in which stronger underlying real economic growth and a sustained higher rate of inflation is increasingly tolerated, if not actively encouraged, as a policy outcome.

China's Policy Levers & Key Action Points

Monetary Easing | China's monetary easing in 2025 has been both broad-based and targeted. The People's Bank of China (PBOC) cut key policy rates, including a 10-basis point (bps) reduction in the 1-year and 5-year Loan Prime Rates (to 3.00% and 3.50%, respectively),³ and lowered the Reserve Requirement Ratio (RRR) by 50 bps—freeing up an estimated 1 trillion Chinese renminbi (RMB) in bank liquidity.⁴ Beyond rate cuts, the PBOC launched a series of structural tools aimed at channeling credit to priority sectors. These included over RMB 1 trillion in new lending and refinancing facilities directed toward small- and medium-sized enterprises (SMEs), technology and equipment upgrades and consumer service sectors such as health care and elder care.⁵ As this liquidity and credit flows through the economy, it is expected to lift nominal spending and gradually push prices higher, bringing inflation closer to policymakers' implicit targets.

Fiscal Stimulus | China's 2025 fiscal stimulus is centered on a RMB 5.66 trillion budget deficit and a 4% deficit-to-GDP ratio.⁶ Beijing authorized the issuance of RMB 1.3 trillion in long-term central government bonds aimed at funding infrastructure upgrades, strategic manufacturing and household trade-in subsidies for vehicles and appliances, while local governments were allocated RMB 4.4 trillion in special-purpose bonds to support regional projects. Government spending on construction-related investment is expected to exceed RMB 5 trillion in 2025,⁷ focusing on major projects in areas such as railways, nuclear power, water conservancy and major scientific and technological infrastructure - reinforcing demand for raw materials while supporting China's broader shift toward consumption - and productivity-led growth.

US Policy Shift in the Making

Despite inflation levels remaining above target, US policymakers appear increasingly tolerant of an elevated Consumer Price Index (CPI) in favor of expansionary policy, reinforced by the high level of national debt. Ongoing spending from the Inflation Reduction Act, Infrastructure Investment & Jobs Act and the CHIPS & Science Act continue to inject fiscal stimulus into the economy, particularly in commodity-heavy sectors like energy, manufacturing and infrastructure. Rising investment in defense and reshoring initiatives have also increased demand for metals and fuels. On top of this, new and proposed tariffs may raise input costs across key goods categories, with a meaningful share of those costs likely to be passed through to consumers. At the same time, the US dollar has weakened notably year-to-date, and the current administration appears to be tolerating, if not favoring, a weaker dollar as part of its broader economic strategy.

¹ BBVA Research. 2025 China "Two Sessions" – Main Takeaways. March 2025.

² CaixaBank Research. 2025. China and the Stockpiling of Commodities: Strategy or Growth? February 2025.

³ Reuters. China Cuts Key Rates to Aid Economy as Trade War Simmers. May 20, 2025.

⁴ China Briefing. China Unveils 10-Point Monetary Package to Stabilize Market Expectations. May 7, 2025.

⁵ China Briefing.

⁶ The State Council of the People's Republic of China. China to Implement Proactive Fiscal Policy with 5.66 Trillion Yuan Deficit. March 7, 2025.

⁷ The State Council of the People's Republic of China.

Under the new US administration, markets expect a significant shift in the Fed's leadership and policy stance. Although Jerome Powell may remain Chair through early 2026, it is widely anticipated that President Trump will appoint a successor who is more politically aligned and more inclined toward monetary easing. Combined with China's active reflation campaign, the prospect of dovish leadership at the Fed points to a rare convergence: the world's two largest economies potentially driving a new wave of global demand, liquidity and upward pressure on prices. For commodity markets, that backdrop has historically been a strong tailwind.

Bullish Case for Commodities

Industrial Metals | Industrial metals are poised to be among the most direct beneficiaries of the new policy environment, particularly when both China and the US are contributing to global price pressures. China's stimulus targets large infrastructure investments, which are set to drive sustained demand for copper and aluminum. These metals are essential to electrification and will also benefit from surging demand in automobiles and renewables. Meanwhile, in the US, demand is emerging from nearshoring initiatives, rearmament and infrastructure development, while persistent inflation in manufacturing and industrial services⁸ has kept input costs elevated, reinforcing upward pricing momentum. After years of limited investment and supply constraints, inventories for both copper and aluminum remain near multi-year lows,⁹ amplifying price sensitivity to policy-driven reflation and heightened demand growth.

Energy | Liquidity injections and credit expansion in China are expected to revive fuel consumption, particularly in transport and manufacturing. In the US, sustained economic growth and heightened geopolitical tensions continue to support domestic energy prices, with refined product margins showing signs of recovery.¹⁰ In addition, with US shale supply slowing – the US oil rig count has fallen to a multi-year low¹¹ – a rebound in Chinese demand could tighten global oil markets. Together, these dynamics create an environment where resilient demand and policy-driven inflation exert meaningful upward pressure on oil and gas prices.

Precious Metals | In China, reflation is being pursued explicitly, while in the US, higher CPI is increasingly tolerated as a byproduct of fiscal stimulus. With the Fed likely to resume interest rate cuts last seen in the fourth quarter of 2024, real interest rates could soften again. Gold, having already inflated steeply, is likely to see continued support as a hedge against currency debasement. Other precious metals, such as silver and platinum, should benefit given their recent underperformance to gold and dual use as industrial metals. Investment in solar infrastructure, electronics and advanced manufacturing should drive silver demand, while platinum's substitutability for gold in jewelry and industrial use should support prices. In a world where the two largest economies are pushing, or tolerating, higher inflation and promoting growth, precious metals may serve as core portfolio exposures.

Agriculture | Agricultural commodities often outperform in reflationary regimes due to rising nominal prices throughout the supply chain. China's consumer stimulus and trade-in programs may boost retail and manufacturing margins, allowing downstream sectors like textiles to restock and raise prices—benefiting cotton. Agricultural markets are often highly sensitive to marginal shifts in Chinese demand and could see upward pricing pressure as a result. In the US, food and food service inflation remain persistent,¹² reinforcing price resilience in key agriculture commodities.

Conclusion

For investors, the policy-driven story will likely have structural consequences for pricing power, capital allocation and portfolio construction. If China were to successfully execute its reflation strategy, coupled with potential dovish monetary and expansionary fiscal policy out of the US, it may set the stage for an environment in which real assets, particularly commodities, may outperform. The time to reassess commodity exposure is not after the market moves. Skating to where the puck is going requires anticipating how policy and demand may evolve.

Capture this potential opportunity through an investment in the [**ALPS | CoreCommodity Natural Resources ETF \(Ticker: CCNR\)**](#) or the [**ALPS | CoreCommodity Management CompleteCommodities Strategy Fund \(Class I Ticker: JCRIX\)**](#).

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⁸ S&P Global Market Intelligence. *Monthly PMI Bulletin*. June 2025.

⁹ White, Andy Home. "LME's New Position Rules Reflect Changed Metals Landscape." Reuters, June 25, 2025.; Frikkie, Andy Home. "Is the Battle over LME Aluminium Stocks Noise or Signal?" Reuters, June 18, 2025.

¹⁰ Reuters. "US Refiners May See Q2 Profit Recover on Stronger Diesel Margins." Reuters, July 23, 2025.

¹¹ OilPrice.com. 2025. *Shale Stumbles Again as US Rig Count Drops Further*. July 22, 2025.

¹² Bureau of Labor Statistics

Important Disclosures & Definitions

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Basis Point (bps): a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

Bullish: in the context of investing, "bullish" means having a positive outlook on the market and expecting prices to rise, often leading to buying or holding investments. A bullish investor anticipates gains and may increase their holdings or maintain existing ones, rather than selling.

Consumer Price Index (CPI): a measure of the average change over time in the prices paid by urban consumers for a representative basket of consumer goods and services. One may not invest directly in an index.

Dovish: in economics, "dovish" refers to a monetary policy or a policymaker that prioritizes economic growth and employment over controlling inflation, often by keeping interest rates low to encourage borrowing and spending.

Tailwind: a certain situation or condition that may lead to higher profits, revenue or growth.

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