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COMMODITIES, FOOD & AGRI

Metals price discovery is shifting east, driving volatility

Recent trading patterns suggest a clear shift in where and how metals prices are being set. While markets remain global, the sequencing of moves increasingly points to China as the centre of gravity for short term price formation. Fundamentals still matter but this shift means that positioning and momentum play a bigger role, leading to more volatility

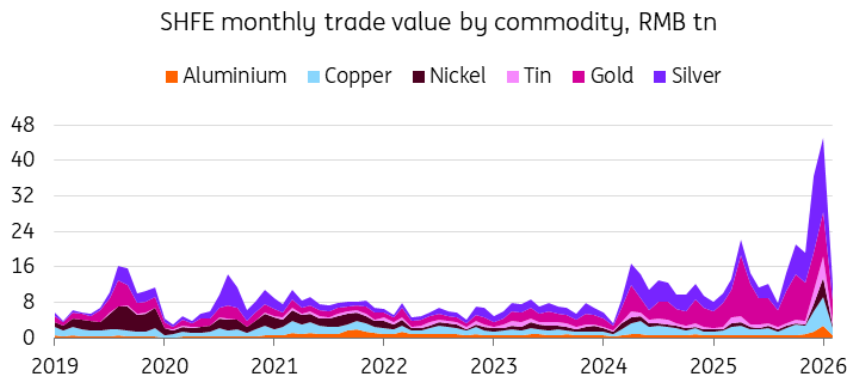


SHFE sets the pace

Activity on the Shanghai Futures Exchange (SHFE) has surged during the latest rallies across base and precious metals. Rising turnover and open interest signal a greater role for speculative positioning in driving momentum, and notably, key price breaks in gold and silver have increasingly occurred during Asian hours, with Europe and the US following rather than leading.

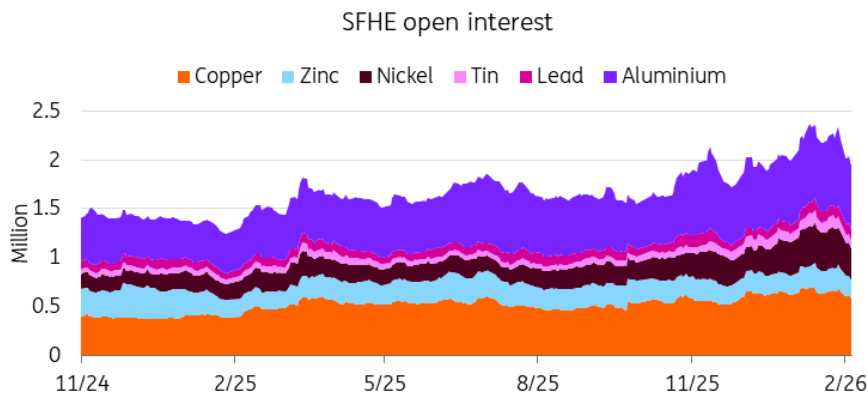
China has long dominated through physical demand, but its role in price formation is evolving. Domestic investors are using commodities futures more actively to express macro views and manage risk, especially at a time when property markets are weak, equities are uneven, and capital outflows face constraints. Metals – both base and precious – have become a more prominent alternative investment amid heightened economic and geopolitical uncertainty.

Metals futures see record SHFE turnover



Source: SHFE, ING Research

And a surge in open interest



Source: SHFE, ING Research

Momentum over fundamentals

Yet some recent gains look difficult to justify on fundamentals alone. While fundamentals differ by metal, physical tightness has not kept pace with the scale of recent price gains, underscoring the influence of positioning, leverage and momentum in short-term moves.

The rise in SHFE activity is broad-based, across base and precious metals, pointing to a general increase in speculative participation rather than metal-specific shocks. SHFE-driven price signals are increasingly setting the tone for global markets through positioning rather than physical arbitrage. When SHFE trades at a premium, it can curb exports and encourage domestic stockpiling, tightening perceived availability abroad and amplifying moves on the LME.

Regulators have responded to episodes of heightened volatility by raising margin requirements and tightening trading conditions in selected contracts. While these measures have at times moderated trading activity, they have not fundamentally altered the broader

pattern of increased speculative participation across SHFE metals contracts.

Metals markets are undergoing a structural shift – Chinese speculative flows are becoming a defining force in short-term price discovery. While longer-term fundamentals still anchor prices, the growing influence of positioning means sharper moves, higher volatility and a greater risk of abrupt corrections as sentiment or policy shifts.

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