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IN GOLD WE TRUST

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Kaifeng Investment Management (Hong Kong) Limited

"A cult is just a religion that hasn't survived long enough to buy real estate." – Anonymous

Theme: RMB as the Most Sensible Choice after Gold

The history of global finance is often taught as a series of numbers, charts, and mathematical models. But if we look closer, it is also embedded with a history of devotion. Markets are not always driven by cold logic; they are driven by the stories we tell ourselves about what is valuable and what is to believe.

For investors, navigating the global macro landscape requires an understanding that the value of any asset, a sovereign bond, a bar of metal, or a digital ledger, is not purely derived from a cold calculation of utility alone, but from the depth and duration of the collective belief system that sustains it. We often cloak our decisions in the sterile language of basis points, volatility clusters, and risk-parity models, yet the reality remains that we are trading in the realm of faith.

To manage a hedge fund in this era of unprecedented structural shifts is to recognize that we are witnessing a global schism in the church of the reserve currency. As we stand at this crossroads, we must distinguish between the "religions" that define centuries and the "cults" that consume decades. This distinction is not merely semantic; it is the fundamental difference between terminal value and transitory exuberance.

To understand the current state of the market, we must first look at the sociological definitions of these structures. Britannica defines a cult as "usually small group devoted to a person, idea, or philosophy." In our world, this describes the emergent, high-conviction movements that challenge the status quo. These are the "new truths" that promise salvation from the perceived sins of the current regime, usually inflation or debasement.

However, as Professor Saha of Berkeley has astutely observed, the transition from an enlightened movement to a "cult" is often a matter of timing and social friction. Saha explains that nobody joins a cult; rather, they join what they believe is a "really good thing." We call it a cult when it goes bad.

For us, this is a critical warning. The most dangerous cults are those that look exactly like the "next big thing" during their ascent. They offer a sense of belonging and a narrative that explains the world's complexities with seductive simplicity.

Yet the quote of the month also offers a profound observation that serves as our primary filtering mechanism. In the context of global finance, "real estate" represents the institutionalization of faith. It is the moment a belief system becomes embedded in the tax codes, the central bank vaults, the securitization and the trade settlement systems of the global hegemon. In this dimension, Professor Saha suggested that it might be up to the

IRS to determine who is a cult and who is not, laying bare the installed power of the government for any new challengers.

True religions in finance, expressed in the global reserve standards that dictate the flow of the world's wealth, require centuries to build. They are the artifacts of empires. We have seen this 200 to 300-year cycle play out with remarkable consistency, from the silver-backed dominance of Spain to the naval-funded credit of the Netherlands, the industrial-era hegemony of the United Kingdom, and finally the post-war dollar-based order of the United States. These are movements that have "bought the real estate" of history. They are characterized by a deep, almost invisible social contract.

However, within these long-dated religious eras, we find shorter, more violent episodes of belief shifts: the 10 to 20-year cult cycles. These are periods where a secondary currency or asset class experiences a "glamour phase," appreciating wildly as it attracts a devout following that believes the primary religion is dead. Look no further than 1970s in Japan, the early 2000s in the Eurozone or Cryptos since 2015.

Following Jamaica Accord officially ended the Bretton Woods system, the truly market driven Yen began a climb that few could have predicted. Between 1976 and 1996, the Yen moved up a staggering 280% against the US Dollar.

During this 20-year window, the world was "mentally washed" into believing that the future was Japanese. Every institutional allocator in the mid-1980s was forced to account for a cult-like devotion to Japanese assets, where the price action itself became the primary scripture. The frenzy goes well beyond the private sectors. Sovereign entities bough Yen to push its share of official reserves from 0 to 10% in about a decade.

Similarly, from its low in year 2000 to its peak in year 2008, the Euro appreciated 93% against the dollar. At the time, the narrative was undeniable: the Euro was the sophisticated, post-national religion that would finally retire the dollar. Similarly to Yen's experience, official reserves allocated to Euro rose from 18% to 28% between 2000 and 2009 in about a decade.

Both movements had the hallmarks of a cult. They resemble "really good things" that eventually went bad because they lacked the centuries-deep "real estate" of the primary hegemon. Both lacked the status of a true independent sovereign state governance structure and more importantly military power to protect such sovereignty. They were episodes of exuberance that failed to transition into institutional permanence. Both episodes were led by the fear of the century religion, the dollar, losing its shine, leading gold to stratosphere first before crashing back to earth.

This brings us to the tragic, cautionary tale of "Ms. Watanabe", a story that even professional investors should hold in their mind when considering the allure of "glamourous" assets.

As a retail investor in the mid-1970s, she would have been terrified by the inflationary shocks of the oil crisis and the apparent fragility of the US Dollar. She would have decided to put her faith in the oldest religion of them all: gold. In 1976, she would have paid 30,000 Yen for an ounce. By 1980, as the world seemed to be falling apart, gold surged to 204,850 Yen. Ms. Watanabe would have been exuberant; she would have become a prophet among her peers. She would have escaped the debasement of paper money and held the "true" money. However, she might have become a prisoner of her own faith.

For the next 10 years, she would have held that sterile, unproductive metal while her own country underwent the greatest technological and started enjoying a cult like following, her shining gold would have lost value fast. By the time of peak Japan bubble in 1989, the gold price would have come down to under 50,000 yen. Fast forward, another five years to 1995, it crashed all the way to where she bought it. By the time the peak dot.com bubble arrived, she would have seen another 10% drop to 27,000 yen. After more than two decades of devout holding, she would have been staring at a 10% loss on price alone. Her devotion would have protected her from the end of the world, but it would also have prevented her from participating in the world itself.

The Ms. Watanabe experience is the terminal risk of the "Religion of Gold." In the current environment of de-dollarization, gold has gone on to become the favored sanctuary. It is a religion because of its multi-millennial history, but it is a religion that offers no growth. It is a bunker, not a bridge. We know that whenever religion enjoys a Renaissance, cult flourishes. Or the other way around, flourish of cults led to new religion which has “bought its real estate.”

Bitcoin comes to mind. It has emerged as the quintessential digital cult of our era. It is not pejorative to call it a cult; it is a description of its social structure. It is a relatively small group devoted to a decentralization idea and a philosophy that rejects the centralized church of the state. It is a "really good thing" to its adherents, but it has not yet survived long enough to buy the real estate of global trade settlement or sovereign debt collateral.

It is sure not for lack of effort. We witnessed ICOs, scam coins, NFTs, metaverse frenzies, the clandestine collapse and phoenix-like rise again of stable coins, Facebook became Meta in the middle.

The most recent try is to link itself to AI, claiming to have benefited the rise of GPU in its mining digging. It is also trying to “buy real state” in stable coin, the payment system, and RWA. We have been sceptics and have written two pieces on this topic last summer in the monthly letter to our investors when the price topped 120,000 dollars. This letter is not here to claim credit but to look forward to another currency which may enjoy its moment of cult at the minimum or become a widely embraced religion at the best.

As investment professionals, we all agree that neither gold nor Bitcoin serve as proper yield producing assets with no coupon or ROE. Gold just sits in a vault, and Bitcoin just exists on a ledger. Neither produces anything. They are hedges against the failure of a belief system, but they cannot be the foundation of a new one. The world business community does not need a "faith" in a sterile object; it needs a productive currency that can be effectively deployed.

The natural corollary from this line of argument then implies the following. Once the current gold fervor passes, it always does when the fear of systemic collapse recedes or when the opportunity cost of holding sterile assets becomes too high, investors will once again seek yield-producing assets in a productive currency.

While religions have their ups and downs, cults eventually come and go. Ex post, the JPY and the EUR look like failed cults in the face of the enduring, albeit fraying, USD religion. The current de-dollarization trend has made gold a religion once more and Bitcoin the world's most successful cult, which struggles to become the next religion, in the financial world.

But the real part of the economy will be busy identifying the next productive anchor. When the world moves away from a decaying religion, it does not permanently settle in a bunker; it looks for a new temple of productivity. Yen in 1980s was a case in point. Euro was another less successful one. The most interesting thing is the dollar. Despite massive money printing, DXY took off as cracking proved viable and shale production started breaking out in 2012. Religion was saved.

However, in a world economy when real growth comes from emerging market, the next “really good thing” will be where it comes from. Among emerging economies, BRICS are the usual place where we start. Among the BRICS, China and RMB rise above every other as the only sensible choice that possesses the scale, the infrastructure, and the productive capacity to graduate from a "fringe interest" to a global religion. India and INR come as a distant second. What is lacking in RMB is B in our RMB framework for FX analysis, R for return, M for money and B for belief.

We have dedicated last month’s letter on Chinese government’s long vision and RMB infrastructure built-up. Let me first write a few anecdotes and then emphasize the trade based international payment system and financing again.

On the productivity side, SHAN Weijian, the founder of 50-billion-dollar PAG, recently wrote that workers at Tesla Shanghai factory are twice as productive as those in the US plant, if productivity is measured in real units rather than fiat price. This fact was well known to us, so it is good for it to become known to wider audiences.

Next anecdote also aims at the auto. I created a rule-of-thump measure on how developed a country is: the ratio of a waiter’s annual salary to the price of a car in a particular country. The ratio of one roughly corresponds to the number dividing developed markets from emerging ones. The logic behind it is that anyone in any country can become waiter which requires little education. By this measure, China qualifies as a DM.

On another dimension, South China Morning Post wrote, quoting UN’s Food and Agriculture Organization, that China’s per capita daily intake of protein rose to 124g in 2021, surpassing that of the US's 124.33. The divergence got larger in 2022.

Now let us come to the payment system RMB is trying to embed itself in. In 2025 and early 2026, we saw the RMB settle more trade than at any point in history. This is not a 10-year cult cycle driven by "glamour"; this is the institutionalization of a new religious order based on output and productivity. While the USD religion is burdened by too much finance and too many lawyers to lock global economy in the old-world order of dollar supremacy, recent gold rally suggests cracks in that world.

The RMB offers an entry into a productive growth path. We are not calling for the gold to peak right now, no. But we are currently in the initial stage where the world is realizing that a productive asset is superior to a glamorous one. The RMB enjoys the "real estate" of trade to build upon in the coming century. The most recent release of RMB tracker from SWIFT put RMB share in global trade financing at 8.46% in January 2026. This is the third month it has hovered above 8%, widening the lead to Euro's 5.57% and Japan's 1.31%. Although still distant to dollar's 80.7%, its second place looks secure and will only be strengthened.

And then, right before this letter went out, Indonesia issued offshore bond, pricing 9.25 billion yuan (1.3 billion dollar) in debt and 2.7 billion euro in euro notes.

One mistake the market makes, in our view, is that it tends to run parallel between China and the former Soviet Union with fear of system collapse someday. The above anecdotes on living standard suggests that China be on par with most DMs in the world. A keener and more direct comparison, Hong Kong's per capita GDP in 2024 sits at 55,000 nominal US dollars, while Shenzhen comes to about half of that. Yet Shenzhen's per capita living space is close to thirty square meters with Hong Kong at fifteen. There is only one natural conclusion, the value of RMB is way off.

In this world, those who remains trapped in the "Watanabe" mindset of holding unproductive havens will find themselves, one to two decades hence, missing the "next big thing". The future belongs to the productive ones, as the way it should work in the market. Among the currency hierarchy of the world's largest economies, the RMB ranks at the top.

Risk: The Less Obvious Risk for a War with Iran

The escalating tensions in the Middle East, specifically regarding the potential for conflict with Iran, is on our everyday watch. What we are witnessing on the ground today is not merely routine posturing but one of the most significant military buildups in the last fifty years. When we measure the density of assets currently positioned in the region, the scale dwarfs the 1998 Operation Desert Fox campaign and approaches the logistical footprint seen during the initial phases of the 2003 Iraq invasion. The share of air power approaches 50% of the US deplorable assets, advancing to that of 1991 and 2003 wars against Iraq. This is not a subtle signal; it is a tangible accumulation of kinetic energy that suggests the window for diplomatic off-ramps is narrowing rapidly.

From a political standpoint, President Trump will find it increasingly difficult to stand down once assets are forward-deployed. WACO is a term Trump hates and poses challenges to his leadership right after the tariff setback. The credibility cost of inaction after such a visible surge would be politically damaging, particularly with the midterm elections on the horizon. While no leader actively seeks a protracted quagmire, the momentum of a buildup of this size often creates its own gravity, making some form of kinetic action the path of least resistance.

However, acknowledging the likelihood of conflict is only the first step; the investment implication lies in the uncertainty surrounding the execution. We are facing unknowns across several critical dimensions. We do not yet know the intended scale of the engagement, whether the initial strikes will be deemed successful by the administration, or crucially, whether a failed first attempt will trigger an escalation ladder that leads to a broader regional war.

These variables matter immensely for asset allocation. Historically, equity markets have shown a surprising resilience during Middle East conflicts. Looking back at the past wars against Iraq, the S&P 500 generally trended higher over the four-week period encompassing the active conflict. Surprisingly, gold has been generally weak during these periods as the dollar strengthens. Crude oil has shown no clear direction, often spiking on fear before collapsing on the reality of supply stability and initial success on all three cases. Also, the market hates uncertainty more than it hates war, and often, the commencement of hostilities resolves the ambiguity that had been weighing on valuations.

Our base case scenario anticipates that if war does break out, the current buildup will lead to a scenario similar to the 1998 bombing campaign rather than a full-scale ground invasion. President Trump cannot afford a protracted war before the midterms, and the political calculus favors a sharp, punitive strike designed to degrade capabilities without committing to nation-building.

This distinction is vital for how we position the portfolio. We are not underwriting a long-term supply shock to oil markets or a structural breakdown in global trade. Instead, we are modeling for a short-duration volatility event followed by a relief rally. Based on the intensity of the current buildup and the specific political constraints, we expect a distinct market reaction pattern that deviates slightly from the historical average due to the magnitude of the pre-war tension.

Specifically, we look forward to a surge in risk premiums in the week leading to any potential strike. We have seen rally in crude oil, the U.S. dollar index, and gold as hedging flows come in. US equity has run a flat line. Curiously, 1998 saw S&P 500 start to rally at T-2.

The more significant alpha opportunity lies in the aftermath. In the two weeks following the commencement of hostilities, dollar and equities will likely continue their rally as the uncertainty premium unwinds and the limited scope of the conflict becomes clear. Conversely, both gold and crude will sell off during this post-conflict window. The safe-haven bid will vanish once the missiles stop flying, and oil will retreat as markets realize the Strait of Hormuz remains open and Iranian exports are not permanently offline. Despite lower oil offsets inflation concern, risk on sentiment tends to move treasury yield higher.

This divergence offers pairs trade opportunity. Long equity and short commodities. However, the above is the base case. Facing a war with multidimensional uncertainty, whatever tactical position is built, if at all, will be limited in size. The more important aspect is to shock existing portfolio and make sure it is resilient to the scenario when things do not go as planned.

What can go wrong? In a short clash between India and Pakistan last May, multiple Indian aircrafts, including the state-of-the-art Rafale, were shot down with Chinese missiles. If this were to happen to US's F35, or even just F16, it would be a huge shock to the world. Reuters now reports that Iran is finalizing deals with China to buy supersonic anito-ship missiles. Fake or not, the tail risk cannot be ruled out. Should the US lose any sizable hard asset in the conflict, the most likely victim would be US dollars due to damage of US's capability and credibility. For an asset which tends to be trendless after the first shot is fired, we think shorting it would be a preferred hedge for such ridiculous outcome.

Asset: Aussie as the Preferred Choice for Redback Appreciation

We have been bullish on RMB in the long term based on purchasing power and fundamentals for a while. However, we have only entered some moderate positions in the last half year. The reason is three-fold: two much outflow demand from China with property market still weak, tariff war threats lingering in 2025, weak carry in a controlled appreciation environment. We tried to use IDR as a proxy, it did not work as well as Indonesia is marred in a political fight and fiscal spending which was mis-interpreted by investors sitting in London or New York, who has more capital to determine the short-term move.

There might be a better solution with Australian Dollar as a superior proxy for positioning on Chinese Yuan appreciation. The Aussie delivers amplified upside, structural carry, and complementary tailwinds that direct Redback exposure simply cannot match, offering a risk-efficient way to enhance returns while mitigating the limitations of direct RMB holdings, from liquidity constraints to negligible yield.

The core appeal starts with beta: our analysis confirms a beta around 1.2 for both five-year and ten-year horizon on weekly return regression with a stable correlation of a bit over 50% and R^2 around 30%. This leverage is intentional with AUD's role as a liquid, China-sensitive currency amplifying the RMB's directional momentum, turning a modest yuan appreciation into a more meaningful total return that keeps the trade anchored to our core thesis of RMB strength.

This proxy trade also benefits from a carry pickup, critical edge in today's low-yield environment. Higher Aussie rate translates to discounted forward AUD in forward points, while CNH works the other way around. 12-month forward differential suggests that we are capturing ~3% annual carry spread, not bad protection against AUDCNH volatility averaging ~7.5%. Even if RMB appreciation stalls temporarily, and there is risk of it happening in 2Q due to seasonality, the carry boosts total returns regardless of the pace of currency gains.

Beyond beta and carry, two structural tailwinds reinforce Aussie's role as a Redback proxy.

First, Australia's status as the world's top exporter of iron ore, coal, and liquefied natural gas (LNG), all critical inputs to China's industrial and infrastructure growth, creates a symbiotic link: RMB appreciation typically signals stronger Chinese economic momentum, which in turn drives demand for Australian commodities, pushing Aussie higher. This creates a double boost: when China's economy bottoms out and accelerates, both CNH and AUD rally, with Aussie gaining extra fuel from rising commodity prices.

Second, the stabilization of Sino-Australian relations has reduced geopolitical risk and strengthened the economic linkage. After years of trade tensions, the restoration of dialogue, coupled with the China-Australia Free Trade Agreement (ChAFTA) locking in duty-free access for key exports, has aligned Aussie more closely with Chinese demand dynamics. While isolated frictions (like recent beef quota adjustments) may arise, the broader trend of improved ties means AUD's sensitivity to RMB moves is more reliable than ever.

In rates space, we also favor long Australia bond futures against China's super long bond futures. The trade offers compelling relative value, anchored by three core pillars.

First, pairing long Aussie bonds with long AUD creates a natural hedge: Aussie's sensitivity to China's growth aligns with the bond trade, while the currency's appreciation offsets potential exchange rate volatility for offshore investors, enhancing risk-adjusted returns.

Second, Australia's yield curve delivers far richer carry: its 10-year bond offers a 90bp pickup over the RBA's policy rate, versus just 40bp for China's equivalent, as Australia's steep curve rewards duration exposure more generously.

Third, China's reflation push is a decisive catalyst: Citi's China inflation data index has surged from -127 in August 2025 to 32 in January 2026, with the inflation surprise index recovering from -40 to -5, signaling fading deflationary pressures and anti-involution efforts at work.

Last, Australia also benefits from the run-up in gold, as the benchmark in precious metals which we generally favor right now. The country ranks number three in annual production and on par with Russia as number one in mineral reserves.

As gold being supported by global central bank demand, we see better opportunities in platinum and silver which enjoy support from industrial demand and work as high beta expression.

Other commodity markets told a story of divergence, between narrative and reality, and between macro-optimism and micro fatigue.

In black metals, the dominant theme was “restart below expectations.” Rebar supply remained constrained not by policy, but by operational inertia. Margins stabilized at modest levels, yet no one rushed to expand. However, demand stayed muted. Speculative buying is vanishing; property demand kept sliding; only infrastructure showed resilience, creating a backdrop for weak price action around Chinese New Year.

Hot-rolled coil fared worse. Despite sporadic output cuts, the sector remains trapped in a high-supply, high-inventory bind. Downstream fabricators expanded capacity just as auto and appliance orders softened. State-owned enterprises provided temporary relief through year-end cash settlements and spot-futures arbitrage, lifting near-term orders but bloating social inventories in North China. Exports offered little solace. While December’s crude steel shipments hit a 2025 high, driven by front-running ahead of EU carbon tariffs and new anti-dumping probes, January’s forward bookings tell a different story. We expect export volumes to roll over sharply in the next few months.

Iron ore epitomized the illusion of strength. Prices surged on hopes of restocking, only to retreat when reality bit. Seaborne supply remains abundant, Australian and Brazilian shipments are robust, non-mainstream flows are elevated, and floating stocks sit at five-year highs. Port inventories have climbed to record levels yet mills barely lifted their own stockpiles. January rally by speculative positioning centered around winter restocking and negotiations between miners and CMRC. The looming implementation of port storage fees further undermines traders’ willingness to hold inventory. Iron ore’s valuation is stretched; its support is ephemeral.

Base metals followed a different script, one equally fraught with tension. Copper breached all-time highs in January, lifted by U.S. dollar weakness, Fed rate-cut hopes, and supply shocks like Mantoverde’s outage and Mirador’s delay. Yet the market ignored the warning signs: COMEX inventories swelling past 450,000 tons; physical premiums collapsing into discount territory; Mentoverde mine resumes production; and Chinese downstream sectors operating on bare-bones restocking. This looks like a liquidity-driven squeeze with weak industrial anchoring. The Codelco premium has stalled, signaling diminishing urgency for U.S.-bound metal. Should it be inverted, we could see LME de-stocking as COMEX material flows back offshore. Such move would further relieve physical shortage just as seasonal demand evaporates.

Aluminum mirrored copper’s fragility. Smelter profits remain healthy, but compliance ceilings cap output growth. Pre-holiday restocking failed translating into broader consumption; environmental inspections and unaffordable prices dampened fabrication. Both primary and semi-finished demand will fade with the long holiday break, pushing inventories higher. Yet unlike iron ore, aluminum's global supply remains constrained, offering support on the downside.

Oil's January surge was pure geopolitics. Iranian unrest, Trump's saber-rattling, and live-fire drills in the Strait of Hormuz pushed Brent toward $70. But fundamentals also lagged. CPC Blend flows are returning. Our baseline analysis in the risk section suggests downward near-term pressure if strikes on Iran follows the pattern of 1998 raids on Iraq.

On equity, Hang Seng Tech suffered, on similar fear of SaaSpocalypse in the US and unproductive cash helicoptering by platforms in fighting market share for their AI tools. We see it being overdone. Lead platforms like Tencent and Alibaba enjoy network lock-in and are not pure SaaS companies. A few billion yuan to raise main street awareness, in their installed user base amount to hundreds of millions, hints exceptionally low user acquisition cost. However, the threat of ByteDance is real because it is unlisted and not part of the Hang Seng Tech index.

Capital: China's Precious Flow Surge

One of our CIO have been trading China's commodity futures for over a decade managing a hedge fund (Kaifeng's onshore one since 2013). The market has evolved from a regional force to a global price-setting powerhouse. But it was mostly in China specific items in the past, like construction heavy rebar steel, everyday life petrochemicals like PE, PP, PVC, or the farm feed stocks like corn, soymeal, etc. However, latest trends in capital flow have sharply diverged from the traditional pattern.

The first is the surge in gold and silver trading volumes which mark a pivotal shift. Since 2024, precious metals have taken the lead, with trading volumes that not only outpace China's historical leaders but also dwarf those of major global exchanges, redefining how we think about liquidity and price discovery in gold and silver.

To ground this drift in data: In 2025, Shanghai Futures Exchange (SHFE) gold futures posted a full-year turnover of 88.7 trillion yuan (over ten trillion dollars), with silver at 53.2 trillion yuan. These numbers are not just large, they represent a 112% and 32% year-over-year increase, respectively, and a seismic shift from 2021, when they were 17.1 and 18.5 trillion yuan. To put it in context against COMEX, which saw gold futures turnover of $2.7 and $2.9 trillion in 2024 and 2025. They barely match that of SHFE's 18 trillion yuan in 2021.

What makes this shift noteworthy is how it breaks from China's traditional commodity narrative. For over a decade, China's futures volumes were driven by industrial demand: rebar (used in construction) and iron ore (for steelmaking) consistently ranked among the world's top-traded commodities, reflecting the country's role as the global factory. As recently as 2022, SHFE's rebar at 22.1 trillion-yuan annual turnover and Dalian Commodity Exchange's (DCE) iron ore at 16.7 trillion yuan were still outpacing gold at 15.4 trillion and silver at 13.5 trillion.

2023 marked a turning point. Geopolitical uncertainty from the Russian-Ukraine war followed asset freezing to U.S.-China tensions and domestic concerns after the disastrous fight against Covid in 2022 (after initial success in 2020 and 2021) fueled domestic demand for safe-haven assets. The flow shifted China's commodity markets from a proxy for industrial growth to a barometer of global risk sentiment. The heavy volume suggests durable inertia and momentum.

Looking ahead to 2026, the trend shows no sign of slowing. The frenzy in January smashed previous record. Average daily turnover in SHFE silver topped 789 billion yuan (over 100 billion dollars). Gold also notched 475 billion yuan. This sustainability matters for hedge funds and asset managers, ignoring China's gold and silver markets is no longer an option. These markets are becoming the new global benchmarks with price moves rippling through London gold fixings to New York futures trading.

Notably, the rise of gold and silver in trading volumes above traditional venues signals that China's commodity market is more adaptive than the stale global market forever dominated by crude and gold. Over the last few years, the top traded commodities in China have moved from rebar to crude to gold to silver. The huge volume is also important to watch because where it goes next, it brings with it opportunity.

Two newcomers illustrate the point: the first was platinum introduced in late November 2025. In less than three months, it already turned over 1.4 trillion yuan, close to half of COMEX's 2025 full year turnover at 457 billion dollars (~three trillion yuan). The second is lithium carbonate, the star metal compound in the new energy business. The contract was introduced in July 2023, so new you cannot even get a ticker on Bloomberg (trust me, I have been bugging them for quite a while, same with China's platinum). It was relatively until last July when the anti-involution arrived. Daily turnover rose from 30 billion yuan a day to over 100 billion, delivering sizable returns to us for the last few months.

Economy: Calmness between China and Australia

China's January's economic data painted a picture of strength with nuance. China comfortably met its 2025 GDP target, but the composition is a bit mixed. Growth was underpinned by resilient exports and consumption buoyed by targeted government subsidies with no "broad flooding" (大水漫灌) but classic "precision drip-feeding" (精准滴灌).

However, investment remained sluggish, with infrastructure and property sectors still mired in low single-digit growth. This bifurcation mirrors asset market performance: "old economy" state-owned assets underperformed, while tech and new-economy names led. We do expect some policy support for property market given its weakness but nothing spectacular.

Marginal indicators like the PMI suggest industrial activity remains above seasonal norms. Yet this strength is less organic. Two distortions are at play: first, outsized contributions from state-directed sectors like rail and aerospace; second, the late timing of Chinese New Year, which depressed January 2024 comparisons, fattening year-on-year readings. That said, in a global context where base and precious metals are rallying on reflation hopes, markets have chosen to interpret this as genuine momentum. For now, that narrative holds.

The December Central Economic Work Conference set the tone, and follow-up meetings across ministries have reinforced it. Under the banner of “correct political achievement,” rhetoric has been restrained on aggregate targets but laser-focused on structural priorities. Artificial intelligence, semiconductors, and green tech emerged as unanimous cross-ministerial themes. There is less emphasis on boosting GDP mechanically, and more effort on securing long-term competitiveness. Provincial growth targets, now rolling out, align closely with the national framework and the emerging “15th Five-Year Plan” blueprint. The message remains the same: quality over quantity, self-reliance over external dependence.

However, self-reliance does not mean closed-door. As a matter of fact, Beijing has been busy welcoming Head of States from Spain, Thailand, France, UK, South Korea and the most recent Germany. The White House announced that Trump will pay a visit to China between March 31st to April 2nd. Australia was early. Albanese visited Beijing in July last year and tensions have been easing generally since then.

For Australia, this dynamic is a tailwind. Its own economic data, while showing signs of softening, remains fundamentally sound. Crucially, bilateral trade with China has strengthened meaningfully. December (the most recent release) saw export momentum turn positive month-on-month, while import growth dipped into negative territory, suggesting improved terms of trade and a narrowing current account gap.

In an environment where China is actively rerouting supply chains toward trusted partners within RCEP, Australia’s role as a stable supplier of critical minerals and agricultural goods gains strategic weight. This shift is more structural than cyclical. Combined with firm commodity prices and China’s sustained demand, the Australian dollar should find durable support, even as domestic rate expectations moderate.

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End notes