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IDEA

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Commodity Matters | Europe

Gold's Rapid Rebound

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Gold has reached our Q4 forecast of $4,450/oz faster than expected. A lower implied probability of Fed hikes has brought ETF inflows, while stronger central bank buying and a steepening yield curve are also providing support. We see a path to >$5,000/oz in 2027 but with scope for volatility too.

Key Takeaways

- The macro backdrop for gold is improving, supporting renewed ETF demand.
- China and Poland's central banks have used lower prices to add to gold reserves.
- Elevated long term borrowing costs raise questions around government debt levels, while an expanded Treasury buyback plan is also providing support.

Physical gold demand has improved with macro headwinds easing… ETF gold buying has responded to lower implied probabilities for a Fed hike and a weaker USD, adding 70t in July/August after 93t of outflows in May/June. Our US economists see the Fed on hold through 2026, though upcoming inflation data will remain important. …**And central banks taking advantage of lower prices**, with China adding 60t of gold YTD, the highest since 2023, and Poland adding 82t, taking holdings to 632t, making progress towards its 700t target.

Gold is decoupling from long-term real yields: Gold and 10y real yields had been inversely correlated since late Feb but in early Aug, gold started to rise while LT yields stayed flat. Physical demand likely explains some of this move but the rally also coincided with renewed yield curve steepening which points to other drivers too. This echoes gold's strength in 2H 2025/early 2026 when Fed cuts pushed ST yields down, but LT yields were supported by rising government debt, fiat currency debasement fears and inflation. This time, LT yields are rising with oil prices and elevated tech sector debt issuance, but the FT notes a renewed focus on government debt levels too. Gold appears to be pricing the fiscal concerns behind higher yields more than the yield level itself. Reports that the Treasury was stepping up LT bond buybacks have provided further support.

We see a path to >$5,000/oz but with volatility: Gold's drivers are evolving. The Fed outlook remains key for ETF demand, making upcoming US inflation data and Fed communication important. However, structural themes are also gaining influence, reflected in gold's recent strength despite elevated bond yields as markets price risks from fiat currency debasement and large government deficits. Central bank buying also provides downside support. With our US economists expecting the Fed to remain on hold, we see scope for gold to exceed $5,000/oz in 2027, potentially earlier. That said, incoming US data, especially inflation, could drive volatility, while COMEX shorts near their lowest since April 2020 leave less scope for further short covering.

Exhibit 1 : Gold price action in recent weeks relative to real yields is looking reminiscent of 2H 2025/early 2026 where the yield curve also steepened

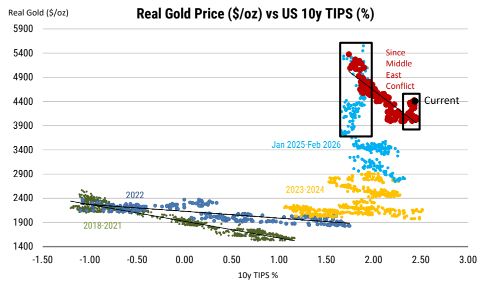
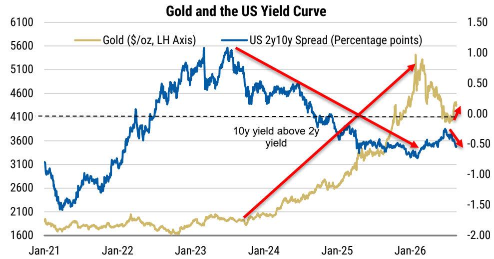
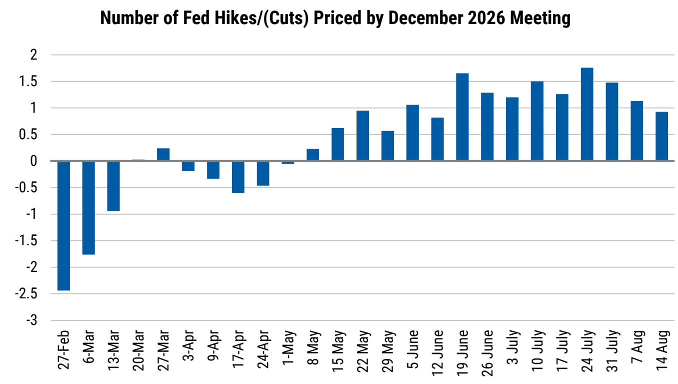


Exhibit 2 : Gold has rallied when long end yields are rising relative to short dated yields, as concerns around government debt and inflation build



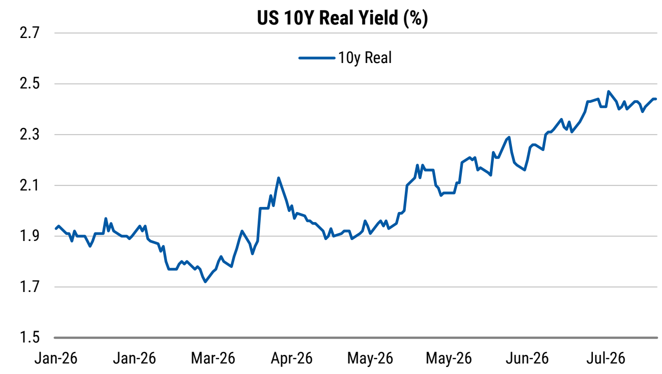
Key Charts

Exhibit 3: The market pricing for Fed rate hikes has come down



Source: Bloomberg

Exhibit 4: But real yields remain elevated, especially further forward



Source: Bloomberg

Exhibit 5: Gold is finding a new path, holding up despite elevated real yields

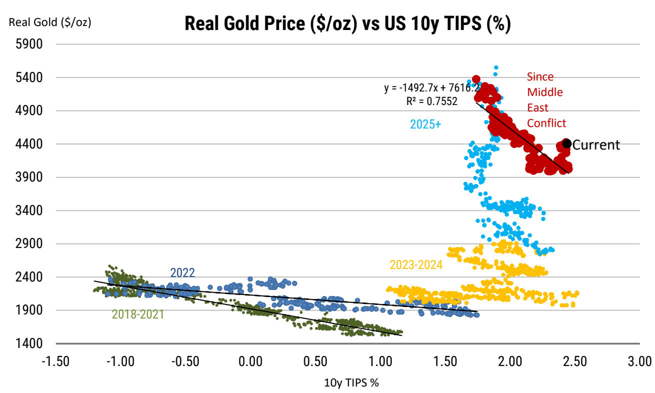
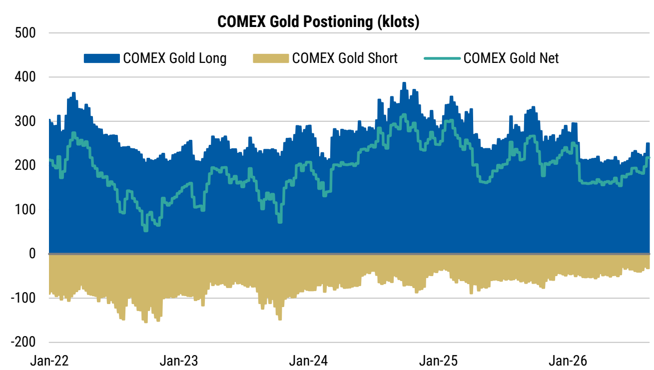


Exhibit 6: COMEX Positioning data implies short covering and new longs - shorts are the lowest since April 2020



Source: Bloomberg

Exhibit 7: ETFs have been buying again, adding 70 tonnes since end-June

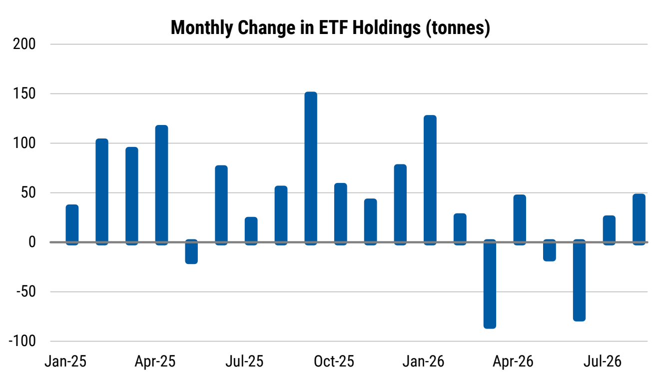
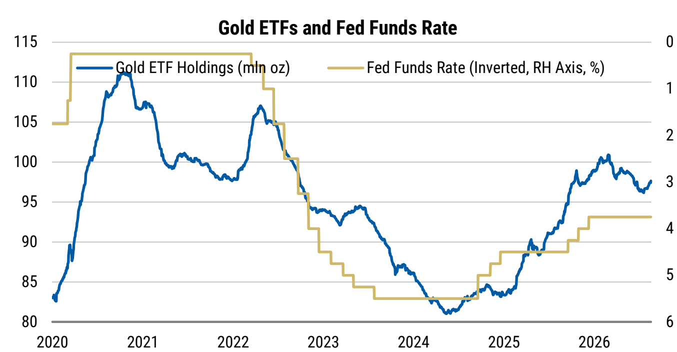
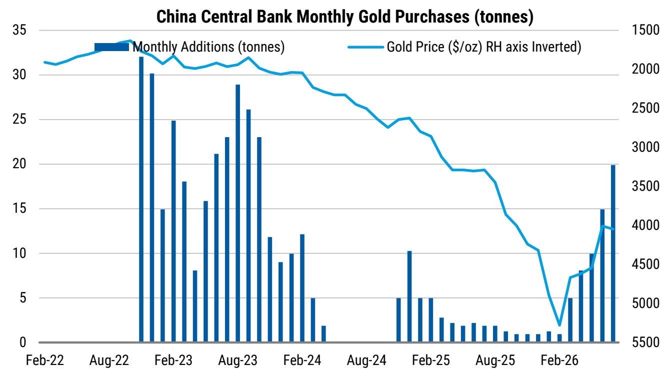


Exhibit 8: ETFs tend to be most active buying gold during rate cutting cycles



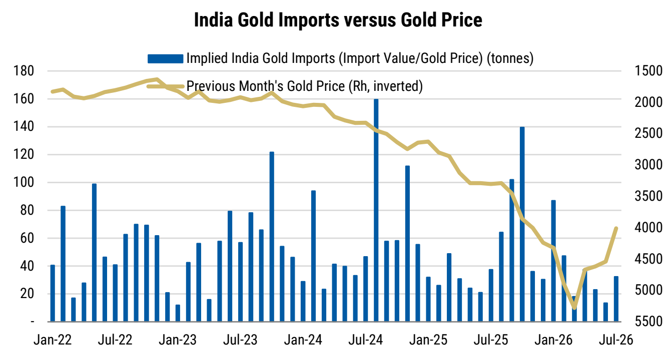
Source: Bloomberg

Exhibit 9: China's PBOC gold purchases have accelerated with the pullback



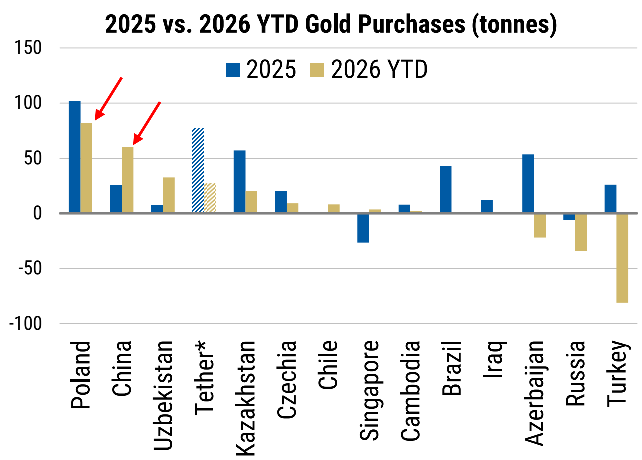
Source: Bloomberg

Exhibit 10: India's imports are showing a modest uptick with lower prices, despite higher import duties



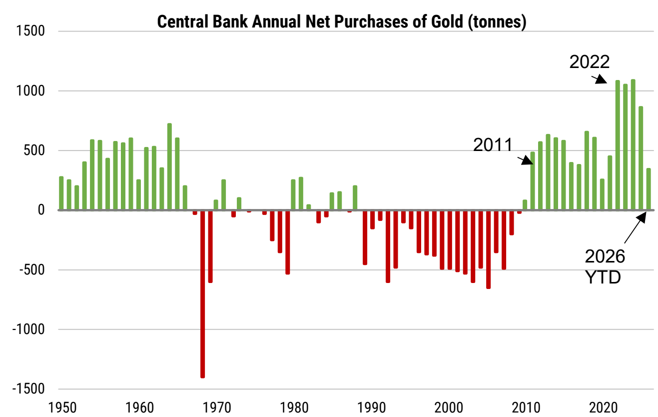
Source: Bloomberg

Exhibit 11: Poland has also bought a lot of gold YTD



Source: World Gold Council, PBOC reporting

Exhibit 12: Central banks bought 345t in 1H, in line with our FY26 estimate of 700t



Source: World Gold Council