PRECIOUS ANALYST

Fed Hikes to Slow, Rather than Derail, the Gold Rally

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- We maintain our $5,400/toz end-2027 forecast despite yesterday's Fed hike and our economists now expecting an additional hike in October. While higher rates should continue to weigh on gold prices through ETF demand in the near term, our economists expect the Fed to deliver three cuts between September 2027 and March 2028, leaving the terminal forecast unchanged at 3.25-3.5%. We therefore expect the impact of tighter monetary policy to be felt primarily through a slower near-term appreciation path rather than a lower terminal gold price. We nevertheless continue to expect gold prices to grind higher in the near term and now estimate year-end fair value at $4,650/toz (below our previous $4,900/toz forecast but above the current spot price of ~$4,350/toz), as much of the expected tightening already appears priced into ETF demand, stronger-than-expected central bank purchases continue to offset the remaining drag from higher rates, and call-option demand for gold as a macro-policy hedge has proven resilient.
- Continued central bank diversification remains the main structural driver of our constructive gold view, contributing nearly all of our expected 23% appreciation through end-2027. Our central bank nowcast points to purchases running at ~91 tonnes/month on a three-month seasonally adjusted basis, well above the pre-2022 average of 17 tonnes/month. Reflecting this acceleration, we raise our central bank demand assumption to 60 tonnes/month on average through 2026-27, versus 50 tonnes/month in 2026 and 40 tonnes/month in 2027 previously. We continue to view reserve diversification following the 2022 freeze of Russian central bank assets as structural, and recent central bank conversations suggest the appetite for gold remains strong.
- We continue to see net upside risk to our gold forecast, but also greater two-sided volatility along the path. Call-option positioning remains around three times historical averages and has proven remarkably resilient despite yesterday's Fed hike and the relatively hawkish press conference, suggesting that concerns around G10 fiscal sustainability continue to support demand for gold as a macro-policy hedge (Exhibit 5). While our forecast assumes the current call-option positioning persists, it does *not* incorporate the additional price amplification ("beta") that the existing elevated call option demand can create through dealer hedging. If gold prices continue to appreciate on the back of structurally strong central bank demand and elevated call-option positioning

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persists, dealer hedging could mechanically amplify the rally and drive gold prices well above our forecast.

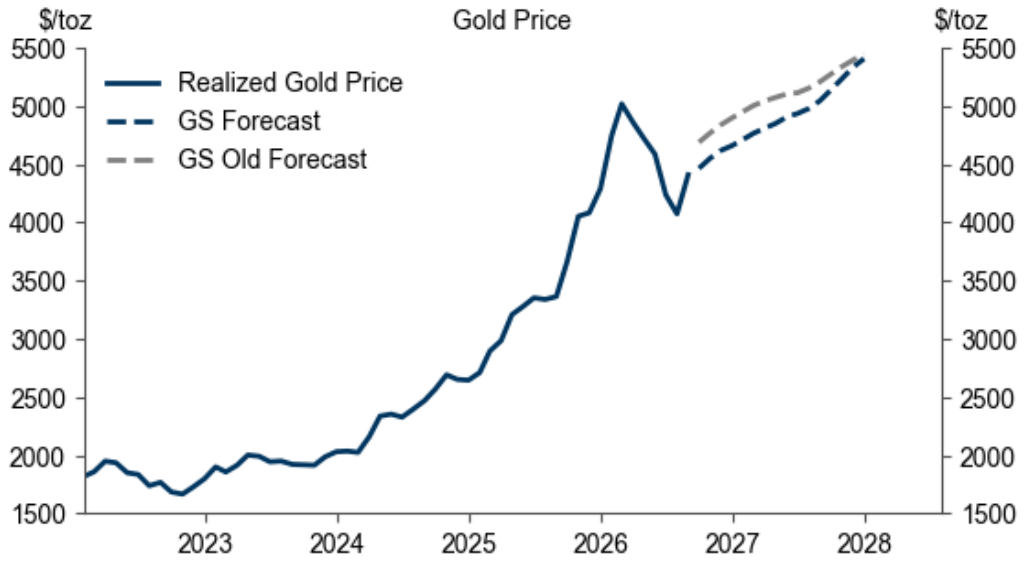
- Conversely, a significantly more hawkish Fed path could generate a sharper-than-usual correction. If the Fed were to deliver three additional hikes by year-end and signal a higher terminal rate, demand for gold as a macro-policy hedge could (partially) unwind as market questions about DM central bank independence fade further. Combined with rate-sensitive ETF holders net selling into higher rates, gold prices could fall toward a near-term floor of $4,070/toz before gradually recovering toward ~$4,200/toz by end-2026, as continued central bank purchases progressively raise the floor under prices.

*The authors would like to thank **Samuel Jönsson** — an intern on our commodities research team — for his contributions to this report.*

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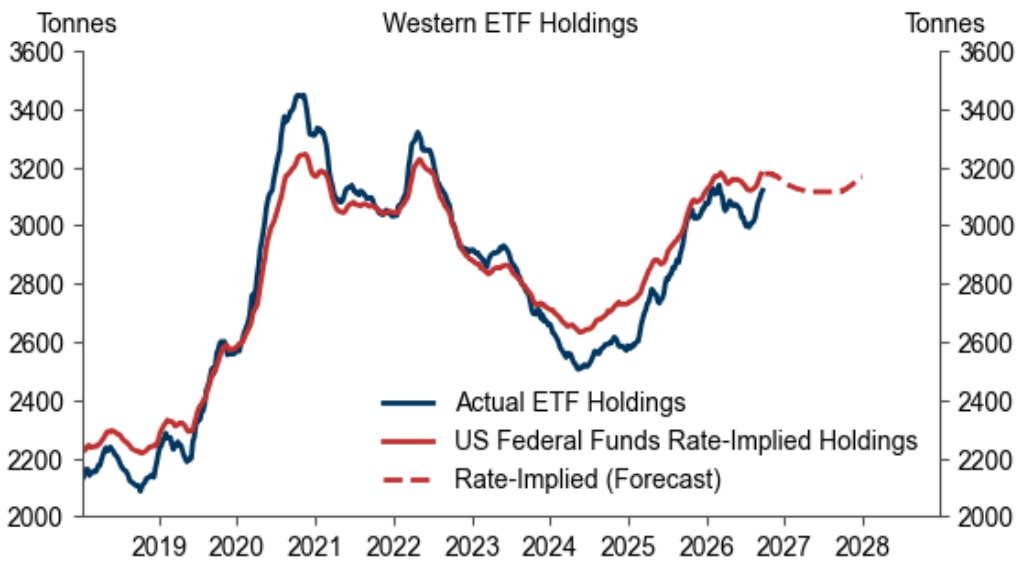
We maintain our $5,400/toz end-2027 forecast despite yesterday's Fed hike and our economists now expecting an additional hike in October. While higher rates should continue to weigh on gold prices through ETF demand in the near term, our economists expect the Fed to deliver three cuts between September 2027 and March 2028, leaving the terminal forecast unchanged at 3.25-3.5%. We therefore expect the impact of tighter monetary policy to be felt primarily through a slower near-term appreciation path rather than a lower terminal gold price (Exhibit 1). We nevertheless continue to expect gold prices to grind higher in the near-term and now estimate year-end fair value at $4,650/toz (below our previous $4,900/toz forecast but above the current spot price of roughly $4,350/toz), as much of the expected tightening already appears priced into ETF demand, stronger-than-expected central bank purchases continue to offset the remaining drag from higher rates (Exhibit 2), and call-option demand for gold as macro policy hedge has proven resilient.

Exhibit 1: We Maintain Our $5,400/toz Dec-2027 Forecast, But With a Slower Near-Term Appreciation Path



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 2: Much Of the Expected Fed Tightening Already Appears Priced Into ETF Demand

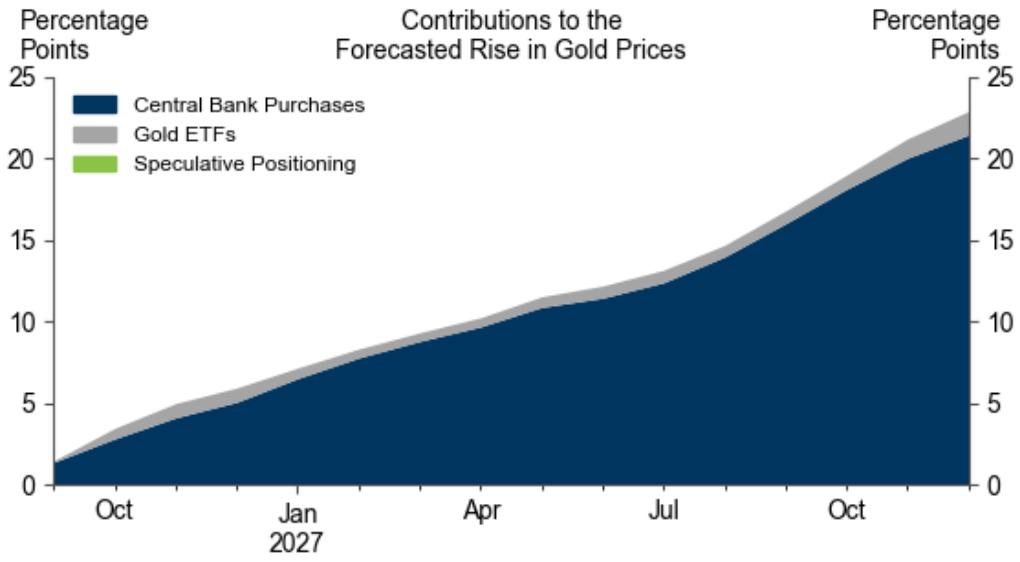


We model ETF holdings using a vector autoregression model (VAR) based on the US policy rate. Our analysis controls for rate expectations – proxied by the US 2-year Treasury yield.

Source: Bloomberg, Goldman Sachs Global Investment Research

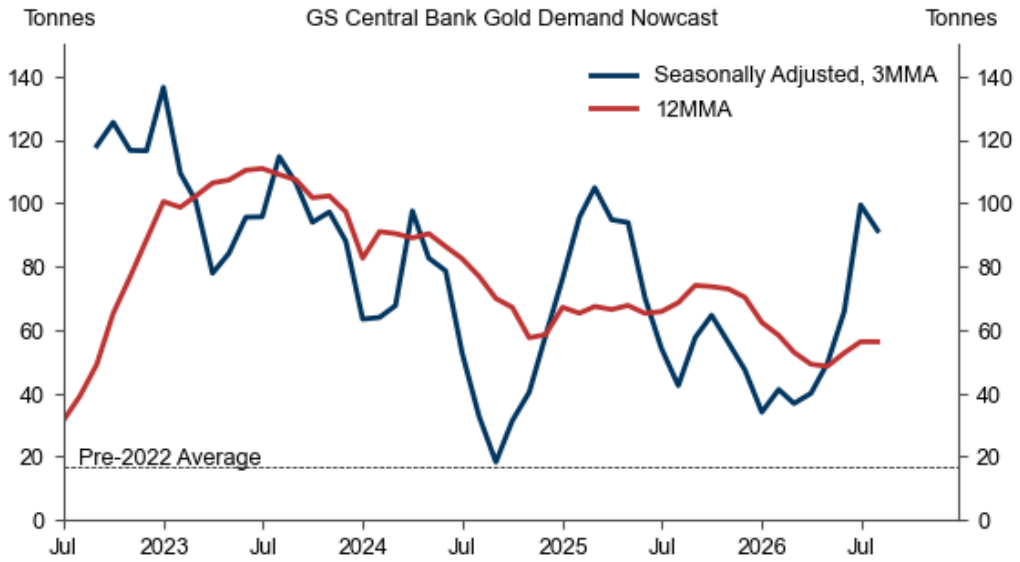
Continued central bank diversification remains the main structural driver of our constructive gold view, contributing nearly all of our expected 23% appreciation through end-2027 (Exhibit 3). Our central bank nowcast points to purchases running at 91 tonnes/month on a three-month seasonally adjusted basis, well above the pre-2022 average of 17 tonnes/month (Exhibit 4). Reflecting this acceleration, we raise our central bank demand assumption to 60 tonnes/month on average through 2026-27, versus 50 tonnes/month in 2026 and 40 tonnes/month in 2027 previously. We continue to view reserve diversification following the 2022 freeze of Russian central bank assets as structural, and recent central bank conversations suggest the appetite for gold remains strong.

Exhibit 3: Continued Central Bank Diversification Remains the Main Structural Driver of Our Constructive Gold View



Source: Goldman Sachs Global Investment Research

Exhibit 4: Our GS Nowcast Estimates Central Bank Gold Purchases at 91 Tonnes/Month On a 3-Month Seasonally Adjusted Basis (vs. a Pre-2022 Average of 17 Tonnes)



Source: Goldman Sachs Global Investment Research

We continue to see net upside risk to our gold forecast in the medium run, but also greater two-sided volatility along the path. Our $5,400/toz end-2027 fair-value forecast assumes current call-option positioning remains broadly stable and therefore does not rely on either further inflows into, or a reversal of, call-option demand.[1] Call-option positioning remains around three times historical averages and has prov resilient despite yesterday's Fed hike and the relatively hawkish press co suggesting that concerns around G10 fiscal sustainability continue to su for gold as a macro-policy hedge (Exhibit 5). While our forecast assume

[1] We assume open interest of calls net of puts on GLD to remain broadly stable around 2.

call-option positioning persists, it does *not* incorporate the additional price amplification ("beta") that the existing elevated call option demand can create through dealer hedging. If gold prices continue to appreciate on the back of structurally strong central bank demand and elevated call-option positioning persists, dealer hedging could mechanically amplify the rally and drive gold prices well above our forecast (blue shaded area in Exhibit 6).[2]

Exhibit 5: Gold Call Option Demand Remains Elevated

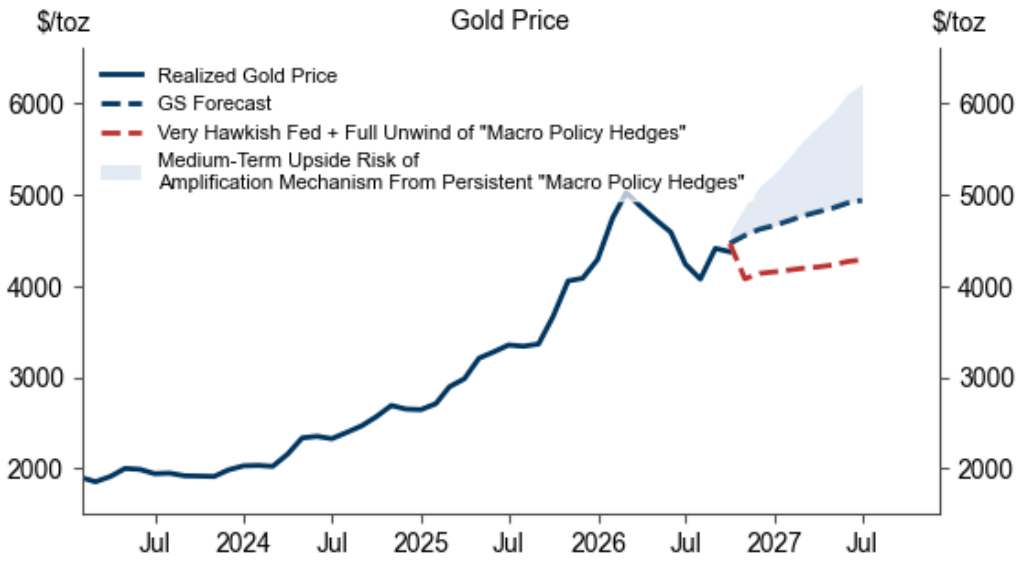


Source: Bloomberg, Goldman Sachs Global Investment Research

Conversely, a significantly more hawkish Fed path could generate a sharper-than-usual correction. If the Fed were to deliver three additional hikes by year-end and signal a higher terminal rate, demand for gold as a macro-policy hedge could (at least partially) unwind as market questions around DM central bank independence fade further. Combined with rate-sensitive ETF holders net selling into higher rates, gold prices could fall toward a near-term floor of ~$4,070/toz before gradually recovering toward ~$4,200/toz by end-2026, as continued central bank purchases progressively raise the floor under prices (red dashed line in Exhibit 6).

[2] We estimate that the price impact of incremental gold demand rises when call-option positioning is elevated. We estimate that a 1 million contract *increase* in net GLD call open interest adds roughly 7% to gold prices, while an additional 100 tonnes of conviction demand raises prices by around 2% under normal conditions. This beta on conviction demand increases with the *level* of call-option positioning relative to historical norms, reflecting dealer-hedging amplification. With call-option positioning currently around 2.3 million contracts, we estimate that the price impact of 100 tonnes of net conviction demand rises to roughly 6.8%, versus around 2% under normal positioning conditions.

Exhibit 6: The Associated Dealer Hedging Could Mechanically Amplify the Rally and Drive Gold Prices Well Above Our Forecast

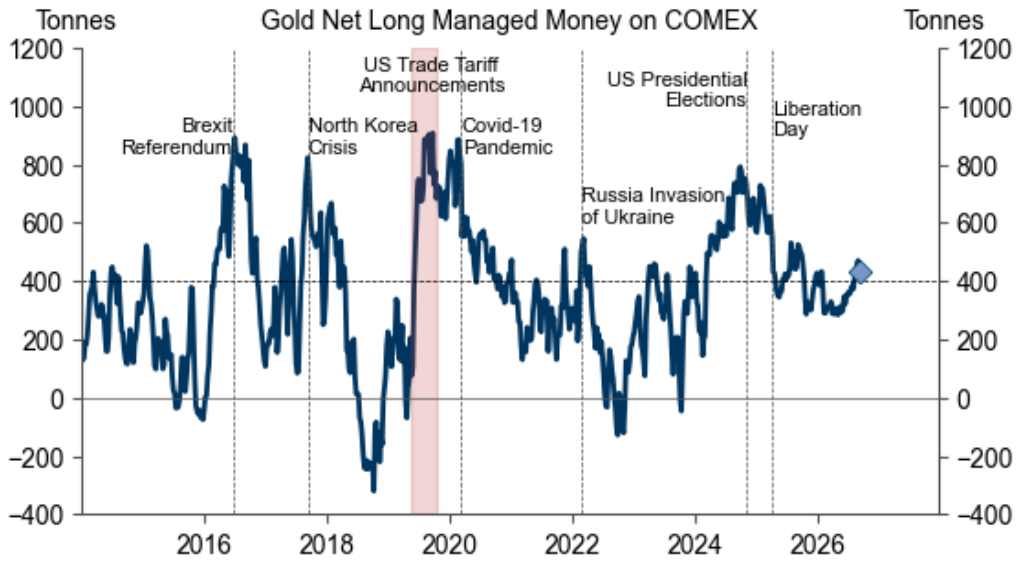


Source: Bloomberg, Goldman Sachs Global Investment Research

While not part of our baseline path for gold prices, speculative positioning could temporarily add ~5% to gold prices ahead of the US midterm elections before sharply reversing once election results are clear.[3] Speculative positioning on COMEX often rises ahead of major events with wide-outcome uncertainty — a "waiting room" allocation to gold until clarity emerges (Exhibit 7). This was evident before the 2016 Brexit referendum, and the 2024 US presidential election. Once outcomes are known, positioning often falls and gold can sell off sharply as capital is redeployed.

[3] Assuming net managed money positioning reaches the 90th percentile of historical observations since 2014 (685 tonnes), or approximately 250 tonnes above current levels.

Exhibit 7: Positioning Often Rises Ahead of Major Events With Wide-Outcome Uncertainty; Once Outcomes Are Known, Gold Can Sell Off Sharply



Dotted horizontal line denotes the historical average.

Source: CFTC, Goldman Sachs Global Investment Research