Global Markets | **Precious metals**

Goldbug: Near-term volatility, but longer-term upside

Gold prices fell below USD 4000/troy ounce in the past few weeks as both pillars of fiscal dominance – higher fiscal spending and lower interest rates – appeared to take a hit. The apparent end of the West Asia conflict pushed back on front-ended spending, while the Fed was seen as hawkish. We also note the drop in prices in response to increases in TIPS yields with increasing paper supply. However, global fiscal and defence trends appear firmly to be in place, and we do not see the Fed as having been hawkish. There will likely be more near-term volatility, but expecting gold prices to gradually grind higher.

July 08, 2026
Gold
Monthly update

Exhibit 1 - Gold prices expected to grind higher over time

Source: Bloomberg, Axis Bank Research

Gold tests USD 4000/troy ounce on geopolitics and Fed, but recovers (Fig 2)

Gold prices came lower through the month of June, first on geopolitical developments involving West Asia as well as on stronger numbers for US labour markets, as well as with limited Asian demand seen. However, optimism around a US/Iran MOU in the third week brought prices to find support, before a hawkishly received FOMC pushed prices back down. Hawkish Fed expectations saw gold fall briefly below USD 4000/troy ounce, before recovering as Fed chair Warsh pushed back on hawkish expectations, as well as on softer US payrolls. Latest moves see some weakening with resumption of West Asia hostilities.

Fiscal dominance is not dead, though not immediately apparent

The fiscal dominance and currency debasement study driving gold prices appears to have taken a knock on two counts – the effective end of the Iran war allows for fiscal spending to be smoothened, while the FOMC was seen as hawkish (Fig 4), pushing back on keeping rates lower than they should be for effective inflation targeting. However, there does not appear to be any political consensus for fiscal consolidation in the US (Fig 3) while global defence spending is unlikely to halt. Simultaneously, our reading of the Fed is one still open to keeping rates low – potentially through a long hold even when hikes might be called for. These indicate that the fiscal dominance story – like in the 1970s (Figs 5) – remains alive.

Expecting a slow crawl higher in gold prices as trends crystallise (Fig 1)

We therefore continue to expect further moves higher in gold prices, though with a somewhat slower timeline as fundamentals around money supply and fiscal dominance play out. This has shifted from a short-term momentum-driven process to something more long term, with explicit evidence of fiscal dominance being institutionalised and driven as an active choice, seen in higher than usual inflation and increase in money supply. However, this does not preclude near-term volatility in prices, with a repeat test of USD 4000/troy ounce also possible with a potential resumption of the West Asia conflict.

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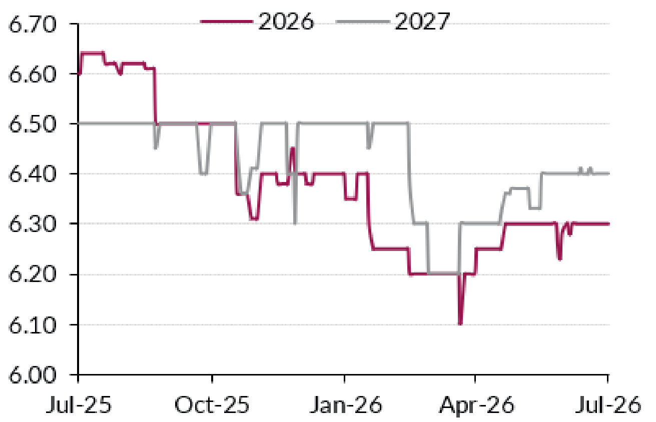
Exhibit 2 - Gold prices continue to mirror moves in 10y UST yields

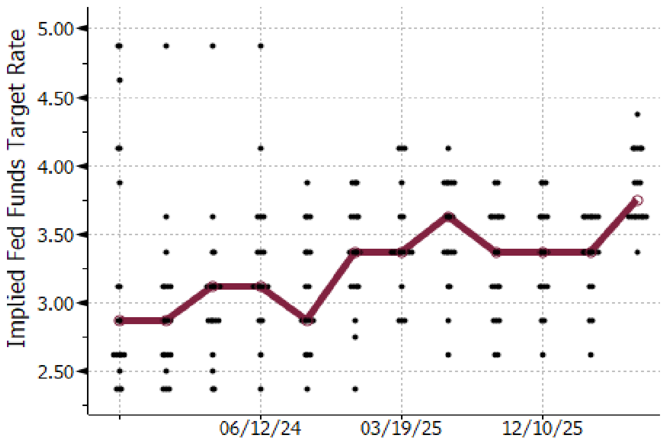
Source: Bloomberg, Axis Bank Research

Exhibit 3 - Evolution of US fiscal expectations – despite the war ending, markets still see deficits



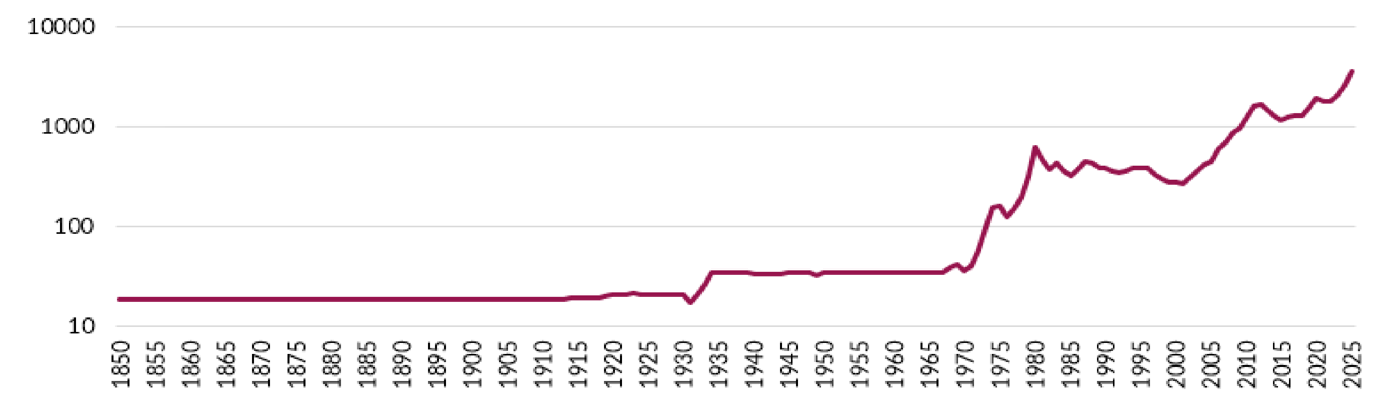
Source: Bloomberg, Axis Bank Research

Exhibit 4 - Evolution of dotplots for end-2026 – latest projections are higher



Source: Bloomberg, Axis Bank Research

Exhibit 5 - Note historical recovery in jewellery demand during a price drop



Source: WGC, Axis Bank Research

Gold tests USD 4000/troy ounce on geopolitics and Fed, but recovers

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Gold lower in early June on geopolitics, stronger JOLTs data

Gold opened June at USD 4525.62 and was supplied early on with the strong USD as US President Trump sent back Iran's draft MoU with tougher terms. Comments from Lebanese official on Hezbollah being ready for a full ceasefire with Israel and chatter of further talks between US president Trump and Isarel's PM Netanyahu helped reverse part of the move. Support also came from optimism around US-Iran negotiations after Mr. Trump indicated that Israel would cease attacks on Hamas, as well as with continued crossings of the Strait of Hormuz. Supply returned after an IDF advisory indicating Lebanese residents should evacuate some areas, as well as comments from Hamas on not accepting a partial ceasefire amid indications that Mr. Trump was pressing for more Iranian nuclear concessions. The USD was also boosted by stronger JOLTS data. Support again came in with reports of US president Trump being unwilling to restart the Iran war and of Israel withdrawing troops from South Lebanon. Comments from Mr. Trump on turning to Cuba after Iran was done led the USD back down, with momentum coming in after sharply stronger US nonfarm payrolls prints. Gold closed the first week of the month at USD 4325.45/troy ounce.

Second week sees further supply with geopolitics absent Asian demand

Exhibit 6 - The second week saw prices largely ranged early on, though supply came in after Iran downed a US helicopter and the US indicated and carried out limited retaliation. Prices Gold prices down in June-July, helped by higher yields

Source: Bloomberg, Axis Bank Research

continued lower absent Asian demand and with Trump comments of Iran having to pay for taking too long in negotiations, speaking also of attacking roads and power plants. Prices rose sharply with Mr. Trump saying that he had cancelled attacks on Iran, and then with comments of having reached a settlement. The week ended with gold at USD 4219.33/troy ounce, recovering from 4046 levels.

US/Iran deal optimism pushes prices higher

The third week saw prices pushed up by optimism around a US/Iran deal, though with some squaring overnight amid higher yields due to corporate issuance chatter. However, this was later offset by lower oil prices and a strong treasury auction. Weaker UK CPI inflation pushed the USD higher and pulled gold lower later on, and with the FOMC being seen as hawkish. Lower levels after FOMC saw some Asian demand, but momentum lower continued. Later, comments from Israel around being in stubborn negotiations around its positions in South Lebanon further pushed prices lower, with some stabilization ahead of the weekend. The third week closed with gold at USD 4155.71/troy ounce.

Fourth week sees FOMC push prices down

The fourth week opened with progress seen in US/Iran negotiations, though this was later offset by concerns around Fed hawkishness, as well as support to the USD by an AI-driven equities' selloff. Softer than expected data on US personal income, spending and PCE inflation, as well as comments from US president Trump signalling only limited retaliation to Iranian drone attacks supported prices. The fourth week saw gold close at USD 4088.74/troy ounce.

Gold tests USD 4000/troy ounce in last week, but recovers on Warsh and payrolls

The last days of June saw prices come off with the stronger USD after the US Supreme Court indicated FRB governor Cook could remain in office until dismissal for cause was proven, as well as on stronger US JOLTs data. This saw prices fall below the psychologically important USD 4000/troy ounce level. However, early July saw prices rise sharply after Fed chair Warsh indicated lower inflation risks and appeared to push back against hawkish interpretations at a much awaited speech in Sintra. Later, a softer print on US non-farm payrolls also pushed prices up, with the first week of July closing at USD 4176.94/troy ounce. However, the last few days have seen a pullback with evidence of exhaustion in demand, as well as fresh kinetic action in West Asia. As of writing, gold trades at USD 4124.43/troy ounce

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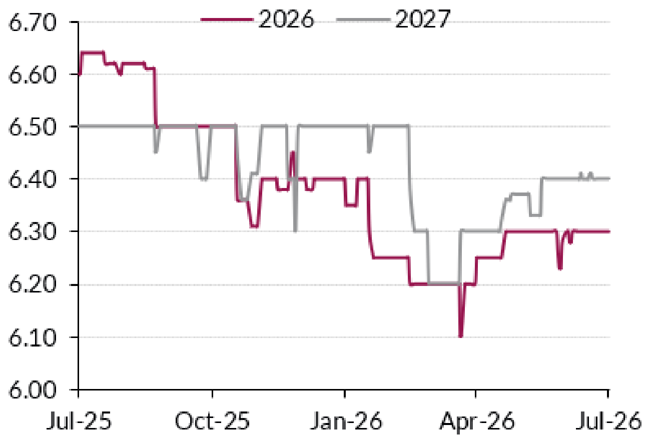
The Fed is not hawkish as is argued, fiscal dominance on pause, not end

We have been arguing for the USD weakening over time as a consequence of fiscal dominance – heavy fiscal spending while interest rates are kept lower than they should be. The month saw trends towards this rolled back: For one, the West Asia conflict appears to be all but over, putting a lid on defence-driven fiscal spending (at least for now). Second, the latest FOMC appears to have been hawkish (we argue later that is was not), allowing for markets to price in eventual tightening rather than easing. At the same time, the ECB has pushed back on rate hikes, leading the EUR to weaken.

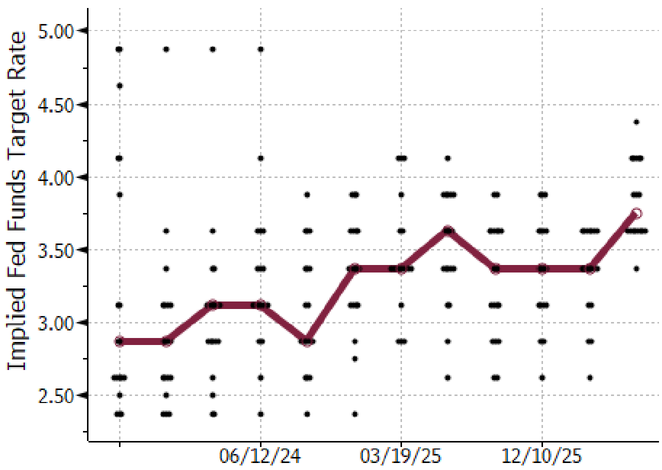
Was the Fed hawkish? The source of this belief appears to have been the dotplot of the latest FOMC meet, as well as repeated comments from Fed chair Warsh reaffirming commitment to 2% inflation. In the dotplot, 9 of 18 dots indicate expectations for a hike. However, these dots were submitted before the Iran deal that brought oil prices lower, while not all 9 dots likely belong to voters in 2026 or 2027. At the same time, chair Warsh abstained from the dotplot, while also setting up a number of task forces. One of these task forces deals with the potential impact of AI on neutral rates – chair Warsh's argument is increased AI-driven productivity would bring neutral rates lower, implying current rates are already high. However, others argue that AI investment will first raise interest rates, and

Exhibit 7 - Evolution of US fiscal expectations – despite the war ending, markets still see deficits



Source: Bloomberg, Axis Bank Research

Exhibit 8 - Evolution of dotplots for end-2026 – latest projections are higher



Source: Bloomberg, Axis Bank Research

rates are therefore low. Another task force is to report on the impact of the large Fed balance sheet on inflation – another argument of chair Warsh is that the large balance sheet, not low rates, are responsible for high inflation.

With these dynamics at play, a rate hike before task forces submit recommendations is unlikely. At the same time, dynamics in the coming year might well point at lower inflation, given mixed growth numbers now being seen (admittedly, seasonalisation does suppress H2 data).

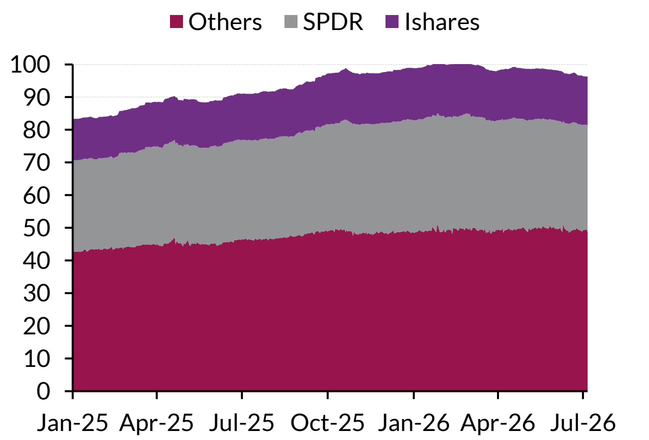
On fiscal spending, it is unlikely that a notable reversal takes place in the near or medium terms – with polls indicating neither Republicans nor Democrats see fiscal prudence as a political issue for now. As with past notes we point at trends during the Cold War, keeping fiscal spending high, driving inflation, and suppressing real rates – driving the USD to weaken.

Supply continues to come from US ETFs, though this might have a fundamental backing

We have been noting supply coming only from the two large US ETFs (SPDR and Ishares) in the US, with limited ETF supply elsewhere. In fact, anecdotes of physical demand continue to be heard, with indications also of increased Chinese official sector demand. At the same time, demand from Asia (including India) tends to pick up with dips in gold prices – with the INR also having appreciated in the past few weeks, this is likely to have been seen. Given trends towards fiscal dominance, prices might fundamentally increase gradually while potential for Indian import restrictions might also lead to increased imports.

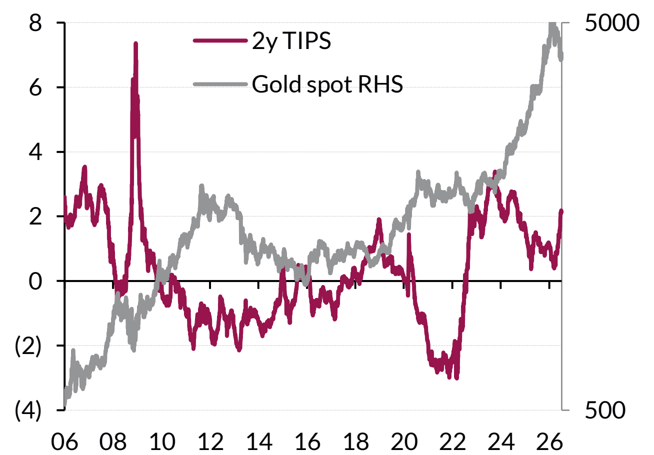
Why are US ETFs welling? One possible reason is the increase in TIPS yields – this is driven by fears of heavy corporate issuance, especially in the AI space, as well as fears of balance sheet reduction from the Fed. This has so far affected near end paper more than far end paper, but gold has historically had an extremely strong inverse relationship with real yields. This makes sense, given that both assets are seen as a risk free asset not providing a rate of interest linked to inflation.

Exhibit 9 - Two main US ETFs remain the main sellers



Source: Bloomberg, Axis Bank Research

Exhibit 10 - Gold prices have risen in response to higher TIPS yields

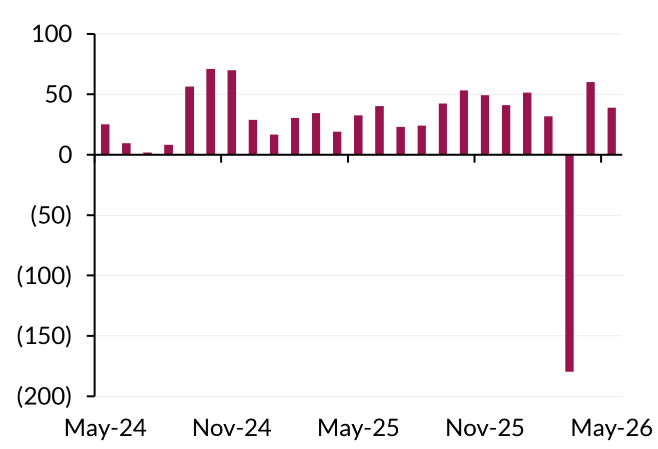


Source: Bloomberg, Axis Bank Research

Expecting a slow crawl higher in gold prices as trends crystallise

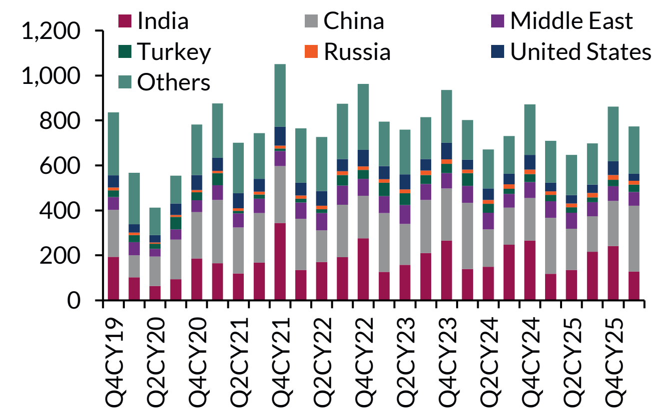
We therefore continue to expect further moves higher in gold prices, though with a somewhat slower timeline as fundamentals around money supply and fiscal dominance play out. This has shifted from a short-term momentum-driven process to something more long term, with explicit evidence of fiscal dominance being institutionalised and driven as an active choice, seen in higher than usual inflation and increase in money supply. However, this does not preclude near-term volatility in prices, with a repeat test of USD 4000/troy ounce also possible with a potential resumption of the West Asia conflict.

Exhibit 11 - Central bank activity (tonnes) after selling in Mar, demand has returned in Apr-May



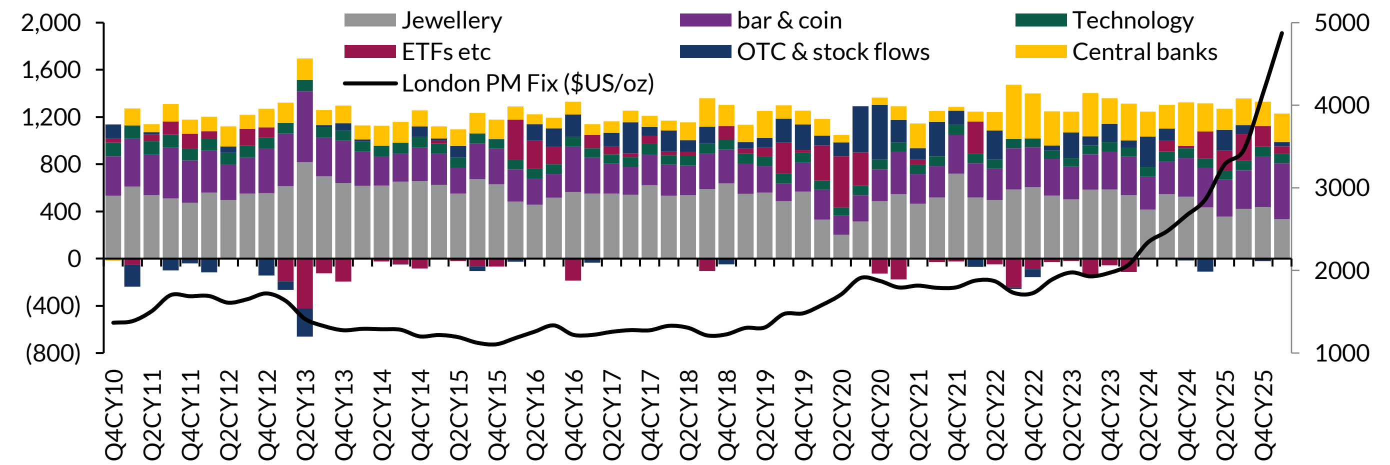
Source: World Gold Council, Axis Bank Research

Exhibit 12 - Global jewellery demand had already slowed by Mar on seasonal lines, rises around Sep



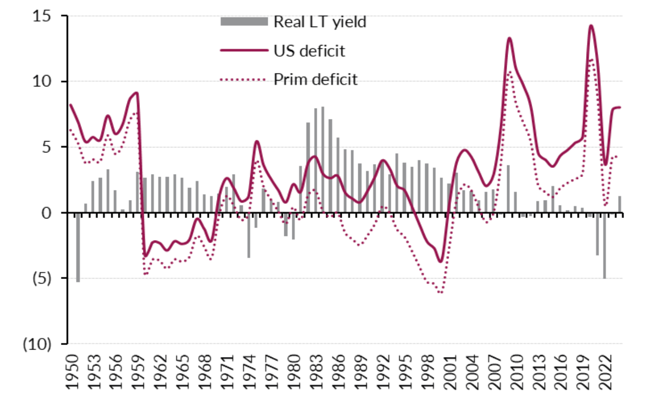
Source: World Gold Council, Axis Bank Research

Exhibit 13 - Note historical recovery in jewellery demand during a price drop



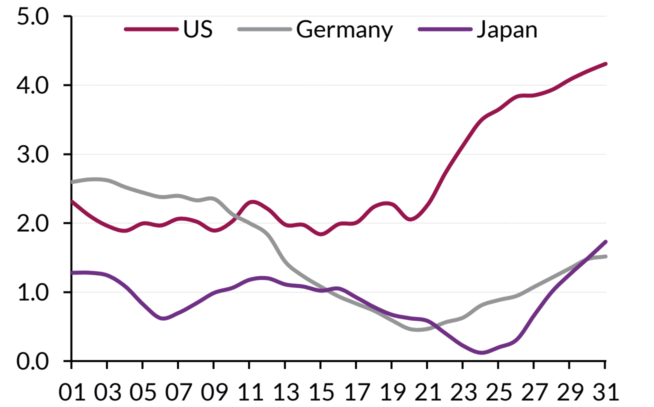
Source: WGC, Axis Bank Research

Exhibit 14 - Note suppression of real rates in these periods, leading gold prices higher



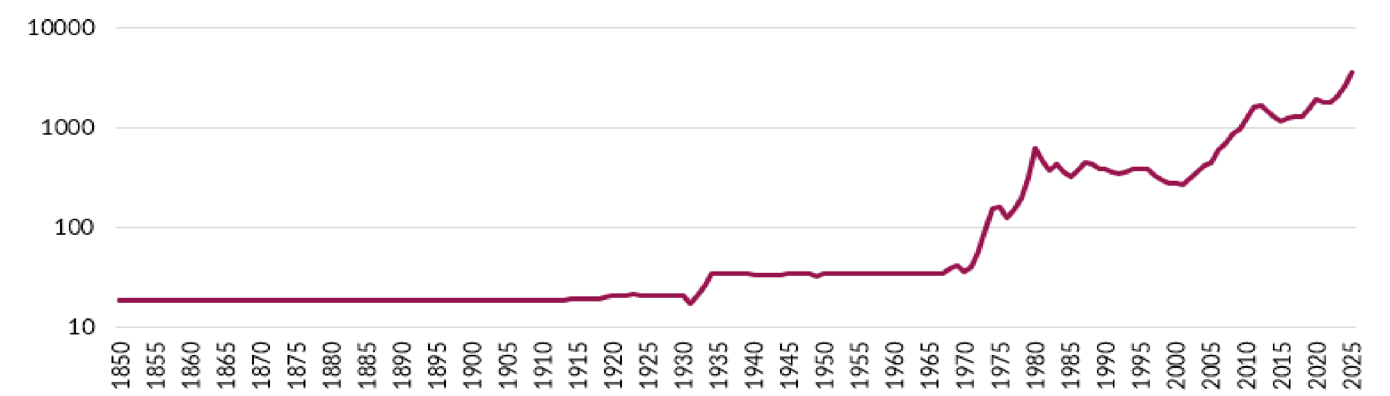
Source: St. Louis Fed, Axis Bank Research

Exhibit 15 - Rising interest fiscal cost (%GDP) projections drive the need for fiscal domiance



Source: Bloomberg, Axis Bank Research

Exhibit 16 - Note historical recovery in jewellery demand during a price drop



Source: WGC, Axis Bank Research

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