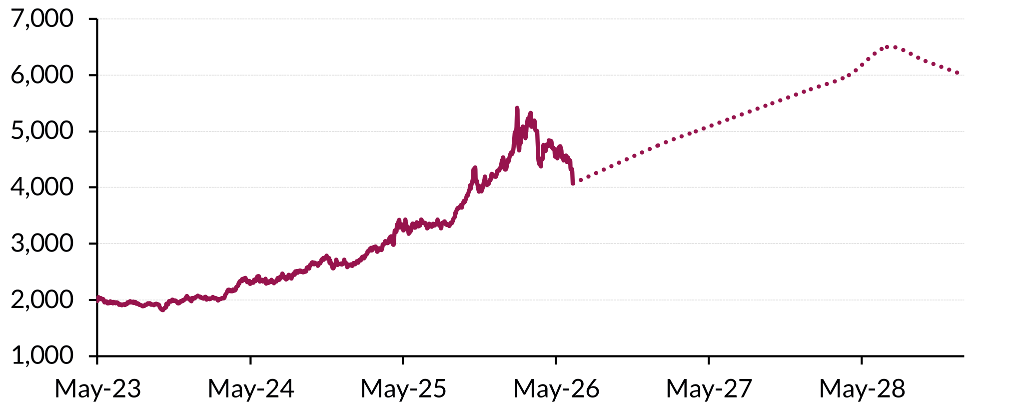
Global Markets | Precious Metals

Goldbug: Path higher postponed with fiscal dominance

Gold | Monthly Update | June 11, 2026

Gold saw further selling May and June, ostensibly with continued disappointment of Iran deal hopes, but underlying this continued selling by a single US ETF linked to the financial ecosystem. Within available data, this is the only source of supply with central banks back to buying, and appears to be linked to fading hopes of early fiscal dominance through rate cuts under new Fed chair Warsh. Indeed, comments by Fed speakers shows considerable resistance. Fiscal dominance might now mean slow or insufficient hikes when needed, pushing the path of stronger gold prices further ahead.

Exhibit 1: Path to higher gold prices has now lengthened



Source: Bloomberg, Axis Bank Research

Gold comes off early highs on lack of Iran progress, stronger US data (Fig 2)
Gold was supported early in May, with optimism around a US/Iran MOU as well as mixed US data, though prices began to fall second week onwards – first with the start of challenges to UK PM Sir Starmer, then stronger US retail sales, and then comments by Iranian supreme leader Khamenei on Iranian uranium not leaving the country. Prices found a range in the third week with indications that the US and Iran were moving close to a deal. Early June saw heavy selling with stronger US payrolls and pricing in of a Fed rate hike this year, as well as with resumption of kinetic action in West Asia. As of writing, prices are below USD 4100/troy ounce.

US gold supply might be spooking other buyers, longer-term fiscal view remains
A look at partial demand and supply data available shows that near-term supply is now only from a single US ETF (Figs 3-4) associated with high-frequency and leveraged accounts – perhaps in line with fading of hopes of a Warsh-driven rate cut starting the US fiscal dominance story. Apart from this, demand appears to be stable with central bank buying back (Fig 5), and indeed tends to pick up after steep drops in price (Fig 7). Fiscal dominance (Fig 6) is now likely to be in the form of delayed rate hikes rather than near-term rate cuts, pushing moves higher in gold prices to a more gradual pace (Fig 1).

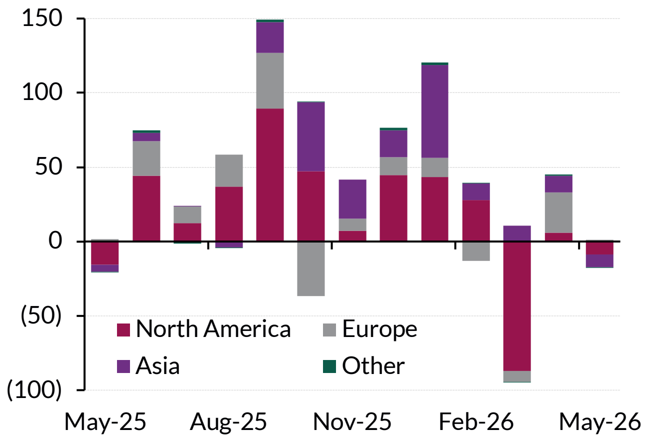
We continue to see longer-term gold support, through near term bumps
In line with the above, we continue to see the path to USD 6000/troy ounce as fundamentally driven given the need for fiscal dominance (Fig 8), especially as defence spending (Fig 9) is likely to lead to significant underperformance of the more responsible fiscal trajectories currently seen. However, this is going to be slow, and can potentially test levels below USD 4000/troy ounce in the interim. in line with traditional demand picking up in the year.

Tanay Dalal
Tanay.Dalal@axisbank.com

Exhibit 2: Gold prices fall with pickup in UST yields in May, June

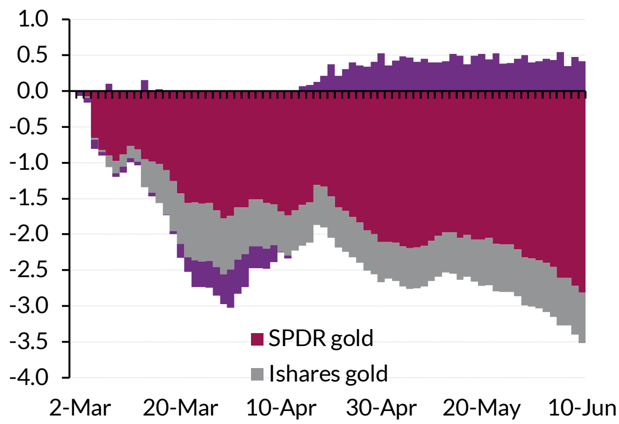
Source: Bloomberg, Axis Bank Research

Exhibit 3: ETF flows by geography – Selling largely driven by North America



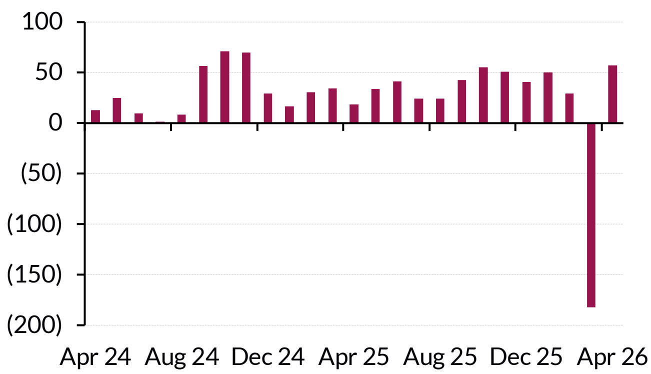
Source: World Gold Council, Axis Bank Research

Exhibit 4: A US ETF is even now responsible for selling (cumulative flows since Mar, mn troy ounces)



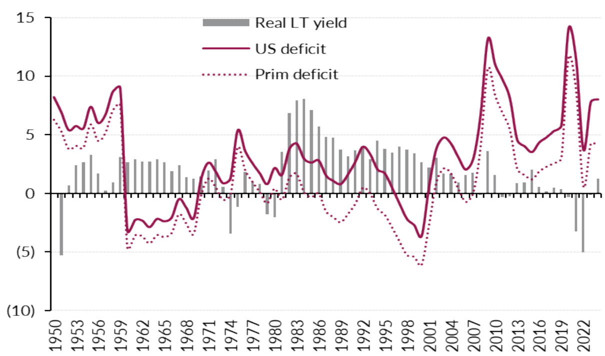
Source: Bloomberg, Axis Bank Research

Exhibit 5: Central bank activity (tonnes) after selling in Mar, demand has returned in Apr



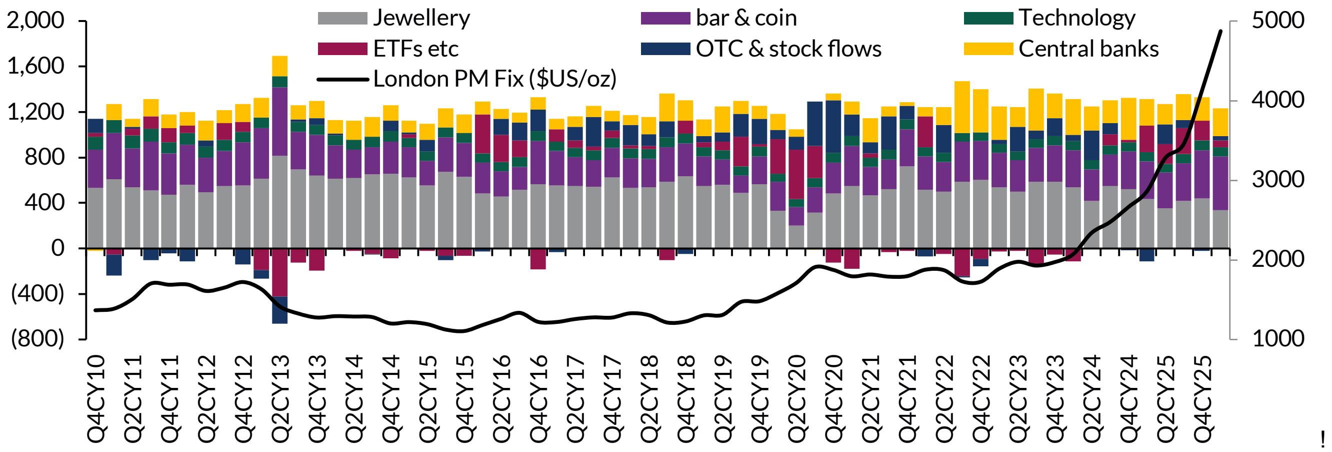
Source: World Gold Council, Axis Bank Research

Exhibit 6: The US practiced fiscal dominance in the 1970s and 2010s, suppressing yields into high spending



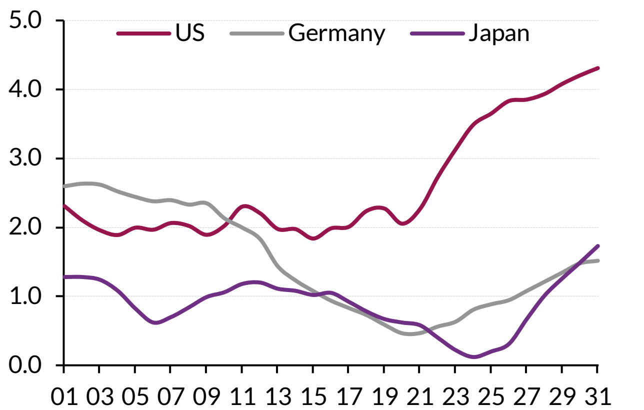
Source: World Gold Council, Axis Bank Research

Exhibit 7: Note historical recovery in jewellery demand during a price drop



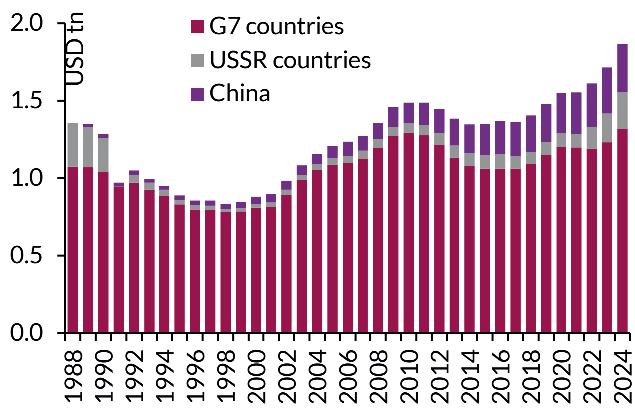
Source: World Gold Council, Axis Bank Research

Exhibit 8: Projections of rising fiscal costs of interest one of the reasons fiscal dominance might be needed



Source: IMF, Axis Bank Research

Exhibit 9: Defence spending (2023 USD) is higher and is unlikely to stop – meaning fiscal could be even larger



Source: SIPRI, Axis Bank Research

Gold comes off early highs on lack of Iran progress, stronger US data

Gold was supported early in May, with optimism around a US/Iran MOU as well as mixed US data, though prices began to fall second week onwards – first with the start of challenges to UK PM Sir Starmer, then stronger US retail sales, and then comments by Iranian supreme leader Khamenei on Iranian uranium not leaving the country. Prices found a range in the third week with indications that the US and Iran were moving close to a deal. Early June saw heavy selling with stronger US payrolls and pricing in of a Fed rate hike this year, as well as with resumption of kinetic action in West Asia. As of writing, prices are below USD 4100/troy ounce.

US/Iran MOU optimism drives prices higher in early May

Gold was at USD 4620.95/troy ounce and was sold early on with geopolitical sentiment associated with Iran announcing a new control zone in the Strait of Hormuz. Additional geopolitical chatter around a US ship being hit (later denied) and UAE air defence systems being activated, kept treasury yields and the USD supported, weighed further on gold. A pause on US ships attempting to cross the Strait of Hormuz, along with weaker US ISM services PMI and rising JOLTs layoffs helped prices find a rebound, helped later by optimism around a one-page US–Iran memo. After late support from stronger German factory orders and weaker US payrolls internals, prices saw squaring ahead of the weekend. Gold closed the week at USD 4715.15/troy ounce.

UK politics, US retail sales and geopolitics bring gold down in 2nd week

The second week saw prices open lower with US president Trump over the weekend saying that Iran's counteroffer to its MOU was completely unacceptable, and with negative risk sentiment around a proposed South Korean AI dividend. Gold then rose despite concerns around India's import restrictions and seemed to find a trading range. Prices fell late in the week with the USD gaining sharply after UK Health secretary Streeting resigned, with stronger US retail sales, and then comments from US president Trump not needing the Strait of Hormuz open. The week closed at USD 4540.08/troy ounce

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

Source: Bloomberg, Axis Bank Research

Prices ranged in third week amid macro and geopolitical developments
The third week opened with gold falling on weekend comments from US president Trump on going in if nuclear dust was not received. This reversed with Iranian sources indicating that negotiations with the US were continuing, and with the GBP gaining aftermarket favourite for PM Burnham indicated he was not in favour of changing fiscal rules. Prices fell back later in the week with sharp increases in both treasury yields and the USD, but this reversed with softer than expected US CPI Inflation and comments from US president Trump on Iran negotiations being in final stages. At this point, comments from Iranian Supreme Leader Khamenei on Iranian nuclear material not leaving the country pushed prices down, reversed by indications that US/Iran negotiating gaps were narrowing. Prices fell at weekend with comments from FRB governor Waller seen pushing back on rate cuts. Gold closed the third week at USD 4506.94/troy ounce.

Geopolitical disappointment leads gold down, but MOU hopes drive recovery
The third week opened higher with optimism around Iran negotiations, with the country's central bank head travelling to Qatar to work out transfer of frozen assets. Optimism faded with fresh kinetic action in West Asia and comments of the US having violated the ceasefire and that the US would no longer have safe havens for its military. Continued declines in were seen with the US disavowing Iranian comments of a draft MOU. However, reports of just such an MOU later emerged, with softer than expected US PCE inflation also pushing the USD lower and taking gold prices back up. The week closed with gold at USD 4545.21/troy ounce.

Payrolls take prices down in first week of June
The first week of June saw prices open lower with US president Trump having rejected Iran's draft MOU over the weekend, Indications that US president Trump and Israeli leader Netanyahu had discussed a Lebanon ceasefire led to some recovery. This was also helped by comments from Mr. Trump on Israel having agreed to cease fire in Lebanon – though reversed after IDF asked residents of South Lebanon to leave. Sronger US JOLTs internals also helped the USD higher and gold lower. Some support was seen on reports of US president Trump being unwilling to restart the Iran war and with Israeli forces withdrawing from South Lebanon. The last day of the week saw heavy selling with stronger US payrolls data and with a Fed rate hike getting priced in for the year. The week closed at USD 4328.45/troy ounce.

Current week sees resumption of US attacks lead prices down
The third week saw gold prices trade steady amid low-level exchanges in West Asia. However, things heated up after Iran downed a US helicopter – followed by comments from US president Trump on Iran needing to pay the price for negotiating slowly, and later with attacks on Iranian targets. Iran also indicated retaliation. As of writing, gold is lower at USD 4076/troy ounce.

US gold supply might be spooking other buyers, longer-term fiscal view remains

A look at partial demand and supply data available shows that near-term supply is now only from a single US ETF associated with high-frequency and leveraged accounts – perhaps in line with fading of hopes of a Warsh-driven rate cut starting the US fiscal dominance story. Apart from this, demand appears to be stable, and indeed tends to pick up after steep drops in price. Fiscal dominance is now likely to be in the form of delayed rate hikes rather than near-term rate cuts, pushing moves higher in gold prices to a more gradual pace.

Selling now only from a single US ETF

The nature of gold supply into geopolitical risk events is still counterintuitive, but appears to have been accepted by markets for now. The biggest drivers of financial demand and supply that respond to risk events are ETFs – where holdings have fallen since the West Asia conflict began. However, a closer look shows that selling is largely concentrated in a single US ETF – one which has been used extensively in financial trading. Apart from this supply, demand elsewhere remains stable, with non-US ETF demand stable. In addition, central banks appear to once again be buying, while non-commercial net longs in futures markets has once again begun to increase.

Longer-term, there is a notable trend of physical demand picking up at lower prices, especially in Chinese and Asian markets. India import numbers for May are not yet out, but are said to be showing lower activity following import restrictions, a duty increase, and a plea by political leadership to limit demand for the near-term. However, lower prices will likely bring back demand over time.

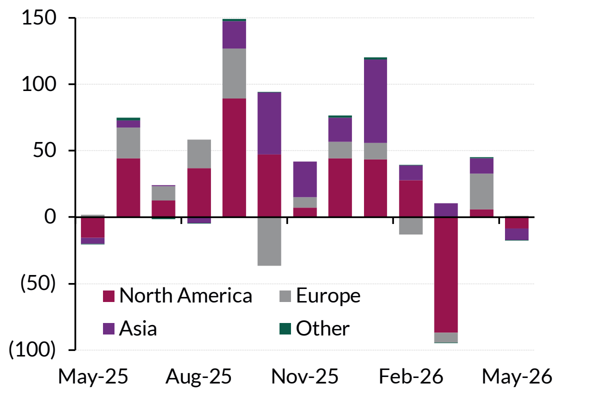
Gold prices gain the strongest during periods of fiscal dominance – but there might be hiccups in the near-term

With these, we turn next to historical drivers of gold demand. A look at the history of gold shows the times of strongest price gains are during times of fiscal dominance – seen in the US in the 1970s. With global spending on defence rising sharply and savings no longer being created (or freely shared), it is likely that fiscal dominance will also need to be the way forward, driving demand for gold prices. With this, we continue to expect the path to USD 6000/troy ounce remains intact, though somewhat more distant than momentum would have implied earlier in the year.

This was thought to mean rate cuts by the Fed, especially under new chair Warsh. Indeed, rate cuts were seen as a precondition of his appointment. However, with a number of other FOMC members and Fed speakers appearing opposed to rate cuts, markets have moved towards pricing in a hike. This is likely to be the proximate reason for financial-driven selling of gold over the past few months.

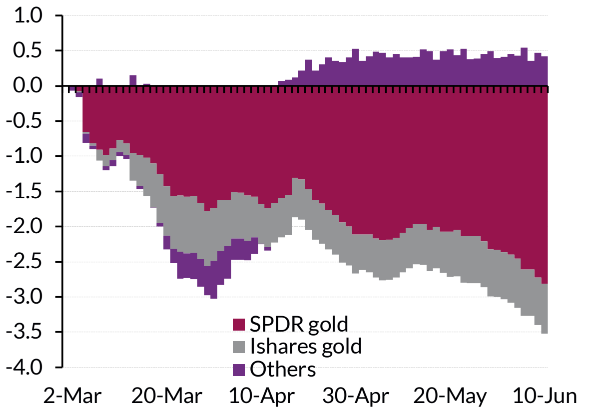
However, these developments do not consider that slow rate hikes might also be a form of fiscal dominance. While Mr. Warsh might be forced to countenance a hike in this year, it is uncertain whether he will be forced to be the committee going ahead. 2027 is notably after the mid-term elections where Republicans are seen losing the House – some arguments are that Mr. Warsh might no longer need to kowtow to US president Trump in terms of interest rates. However, high US fiscal spending is likely to necessitate some form of lower interest rate – especially with the current bipartisan consensus of debt/GDP no longer being the

Exhibit 11: ETF flows by geography – Selling largely driven by North America



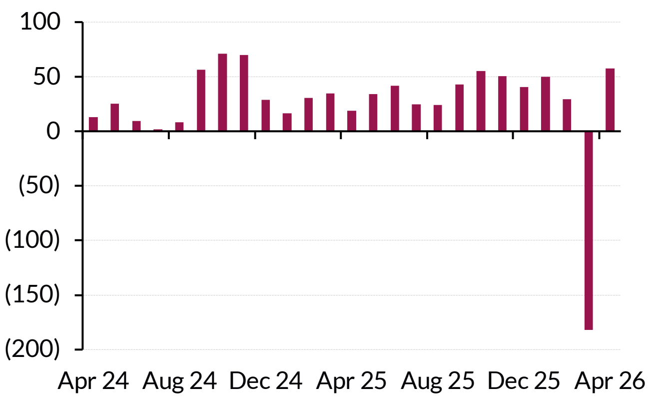
Source: World Gold Council, Axis Bank Research

Exhibit 12: A US ETF is even now responsible for selling (cumulative flows since Mar, mn troy ounces)



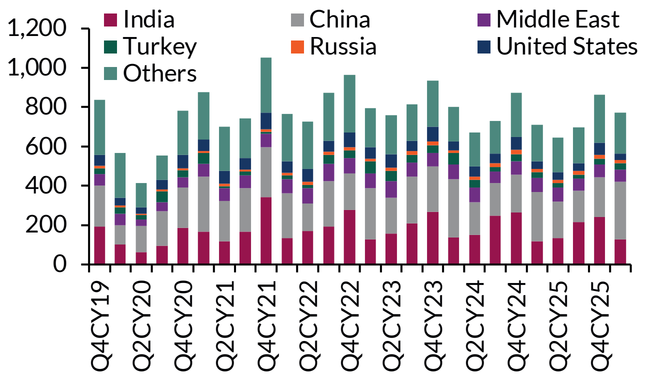
Source: Bloomberg, Axis Bank Research

Exhibit 13: Central bank activity (tonnes) after selling in Mar, demand has returned in Apr



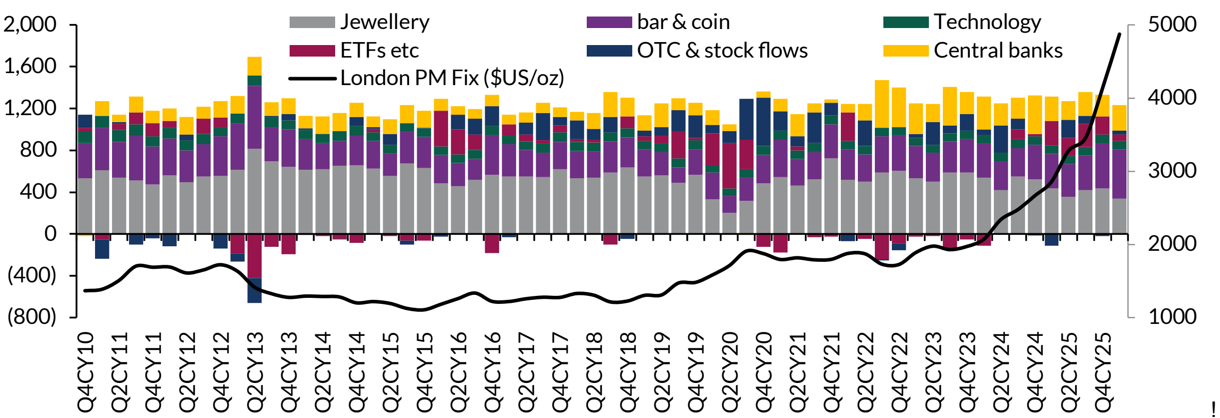
Source: World Gold Council, Axis Bank Research

Exhibit 14: Global jewellery demand had already slowed by Mar on seasonal lines, rises around Sep



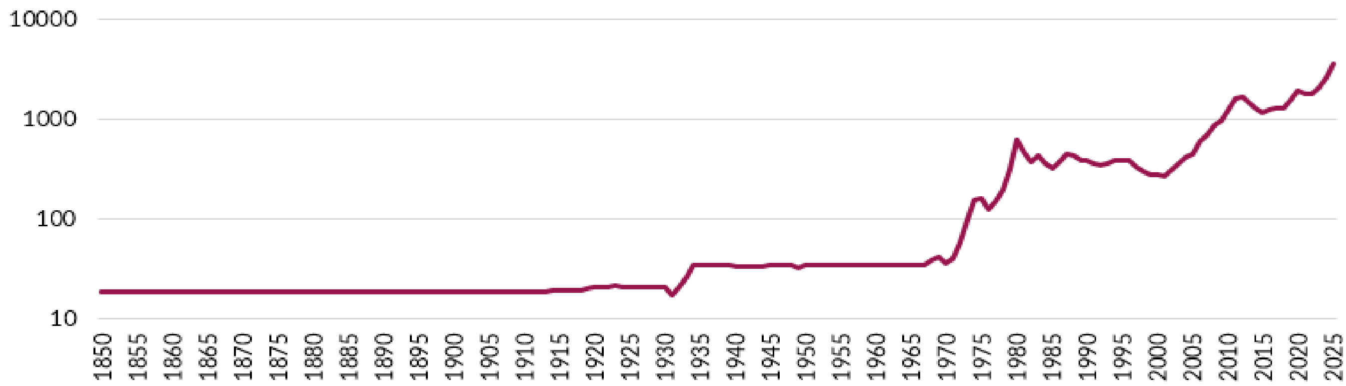
Source: World Gold Council, Axis Bank Research

Exhibit 15: Note historical recovery in jewellery demand during a price drop



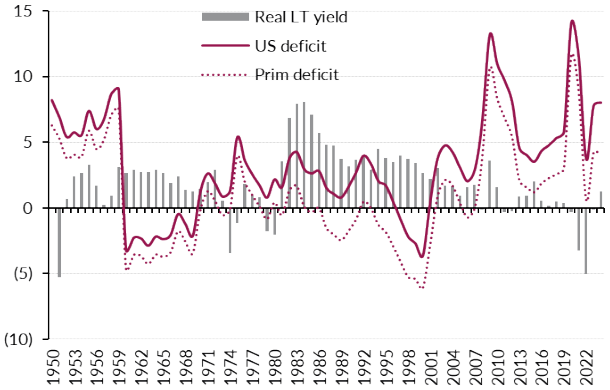
Source: World Gold Council, Axis Bank Research

Exhibit 16: Gold prices rose multifold in the 1930s, 1970s, 2000s – all fiscal dominance periods.



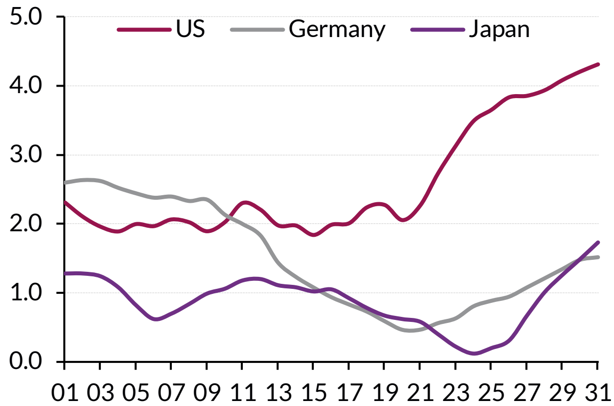
Source: World Gold Council, Axis Bank Research

Exhibit 16: Note suppression of real rates in these periods, leading gold prices higher



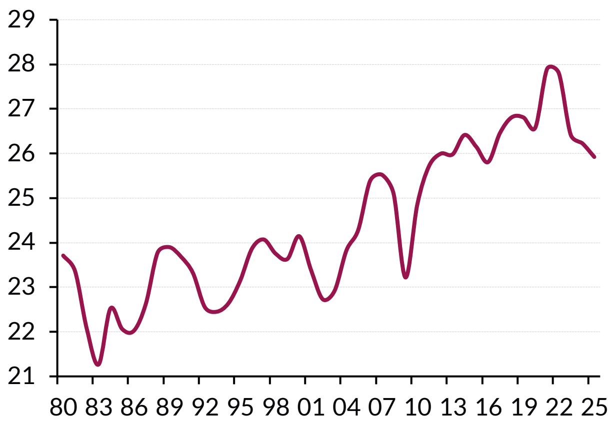
Source: St.Louis Fed, Axis Bank Research

Exhibit 17: Rising interest fiscal cost (%GDP) projections drive the need for fiscal domiance



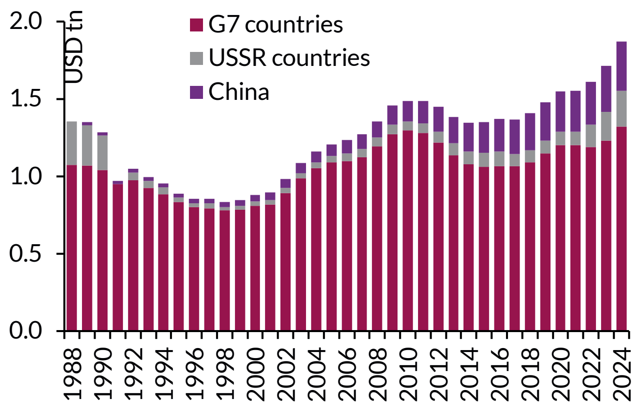
Source: Bloomberg, Axis Bank Research

Exhibit 18: Global savings (%GDP) have fallen since the pandemic, are back at 2016 levels



Source: IMF, Axis Bank Research

Exhibit 19: Defence spending (2023 USD) is one of the bigger drivers of dissaving



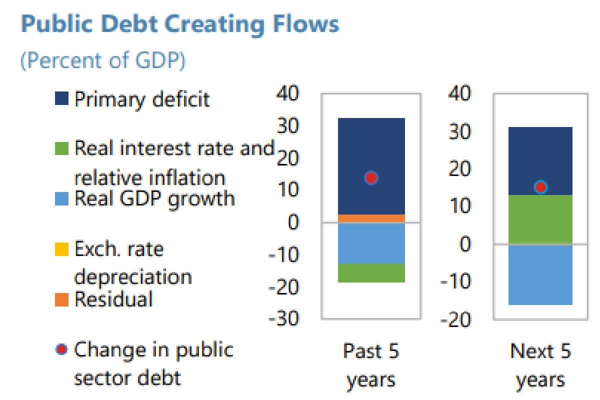
Source: SIPRI, Axis Bank Research

shibboleth it once was, and with defence spending likely to remain strong going ahead.

We continue to see longer-term gold support, through near term bumps
While the fiscal dominance and debasement stories are now less believable in the near-term, these are largely likely to follow through in the longer-term. This means that gold prices can be low as central banks appear to act responsibly in abandoning rate cuts and even carrying out early and limited rate hikes. However, with fiscal pressure likely persisting, the tendency of central banks to avoid raising rates further provides longer-term reason to buy gold. In line with this, we continue to see gold prices at USD 5000/troy ounce, but see the path to reaching this as slower than earlier thought. In fact, our original views from last year indicate a more gradual pace of appreciation, that might once again be more appropriate.

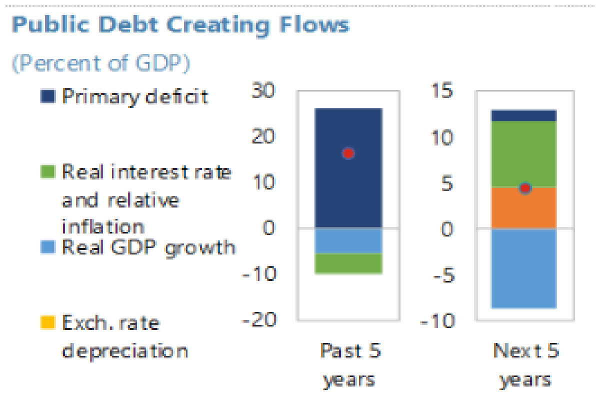
As an appendix, please see the below IMF DSA charts, showing the impact of positive real rates on debt/GDP along with a falling deficit trajectory – real rates might need to be forced lower were fiscal stuck in expansion.

Exhibit 20: Contributions to debt/GDP for the US



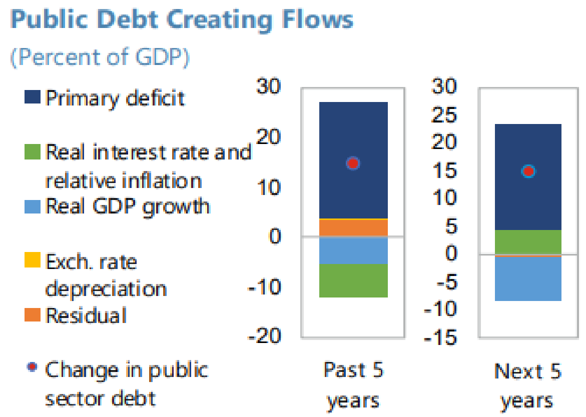
Source: IMF, Axis Bank Research

Exhibit 21: Contributions to debt/GDP for the UK



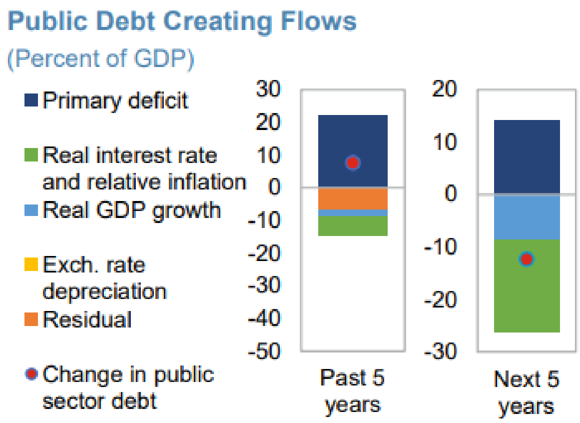
Source: IMF, Axis Bank Research

Exhibit 22: Contributions to debt/GDP for the Eurozone



Source: IMF, Axis Bank Research

Exhibit 23: Contributions to debt/GDP for Japan



Source: IMF, Axis Bank Research

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