Global Markets | Precious Metals

Goldbug: Long road ahead

Gold | Monthly Update | August 06, 2026

Gold process was capped through July with geopolitics as well as the stronger USD, though recent developments have led to a spurt of demand – US ETFs that have hitherto been sellers have also begun to buy. We continue to expect the Fed to hold rates lower than they normally would, but this effect is blunted by the increase in real long-term yields. There are also indications of physical demand exhaustion at higher prices. The necessity of long-term defence spending and low rates remain a great driver of gold prices higher, though the above factors indicate the path higher might be a long one.

Exhibit 1: Steady grind higher in gold prices seen over time

Source: Bloomberg, Axis Bank Research

Gold capped through Jul, recovers early Aug (Fig 2)

Gold prices were capped through much of July, with geopolitics, a French court decision to allow opposition politician Le Pen to run for elections, and with Fed speakers indicating hawkishness. However, the FOMC indicated that the bar to rate hikes was still high, and the USD later weakened with stronger Eurozone data and heavy joint US/Japan intervention in the JPY. This led prices to rise sharply in the current week.

Real yields, financial supply driving weaker gold: but physical demand low too

The fiscal dominance and currency debasement study driving gold prices appears to have taken a knock owing to the FOMC and real yields (Fig 3). The FOMC has indicated that the bar to a hike is high, but that to cuts ahead is even higher. Apart from this, very heavy borrowing demand and fiscal spending have led real yields to rise sharply – fiscal dominance involves lower yields (Fig 3). Apart from supply seen in US (recovered in Jul, Fig 5)) and then Chinese ETFs, there are also concerns in terms of physical demand (Fig 6). According to the World Gold Council, identifiable demand at 941.8 tonnes in the Jun quarter was the lowest since 2021, but supply remained strong. Weaker demand was largely driven by a drop in both jewellery and gold bars/coins (Fig 7-8). The latter is seen as a form of physical investment, agreeing with the negative ETF contours.

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.

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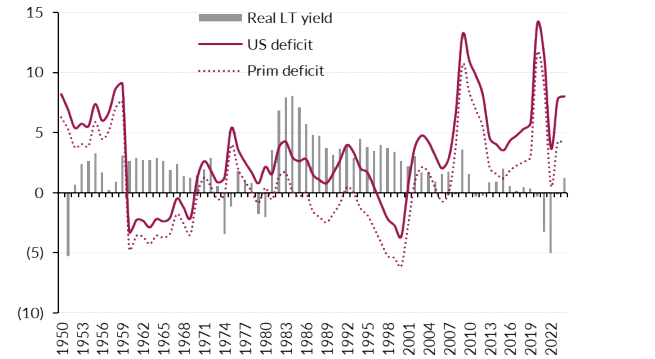
Exhibit 2: Gold prices continue to mirror moves in 10y UST yields

Source: Bloomberg, Axis Bank Research

Exhibit 3: Note suppression of real rates in these periods, leading gold prices higher



Source: St. Louis Fed, Axis Bank Research

Exhibit 4: But TIPS yields are now rising

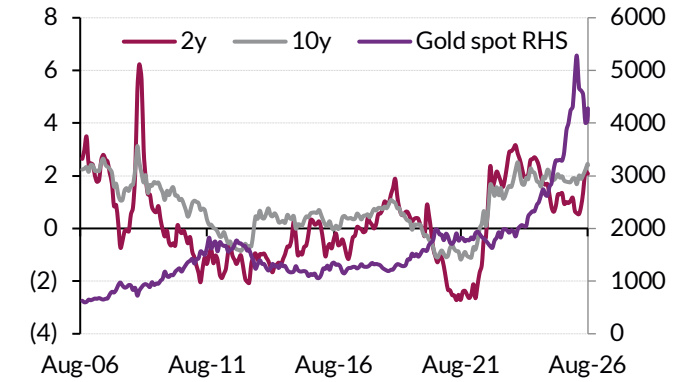


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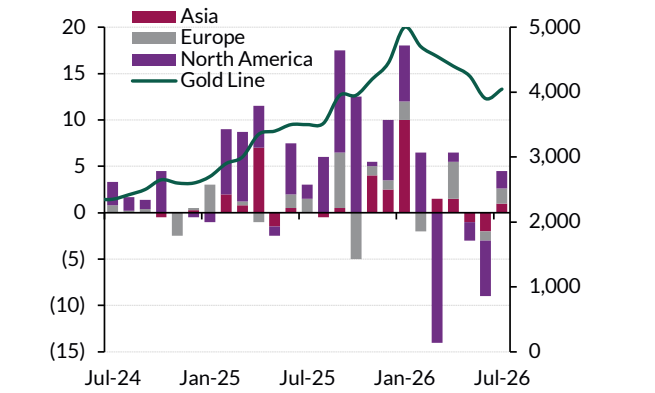
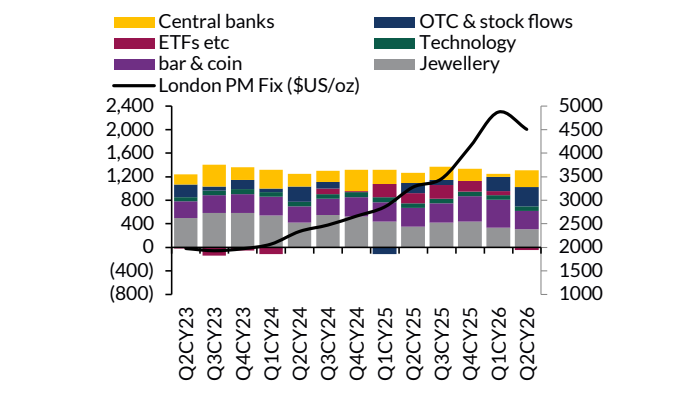
Exhibit 5: There are indications that the US has ended its run of ETF supply



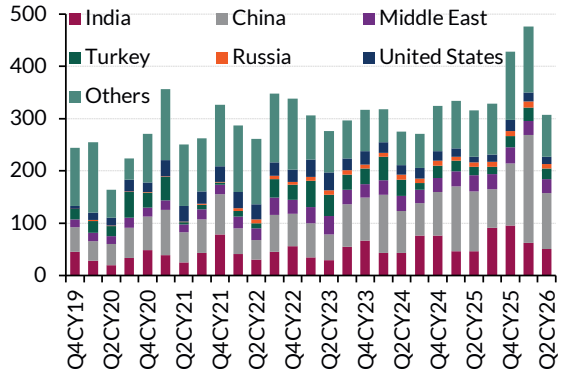
Source: World Gold Council, Axis Bank Research

Exhibit 6: Physical demand has turned short in Q2



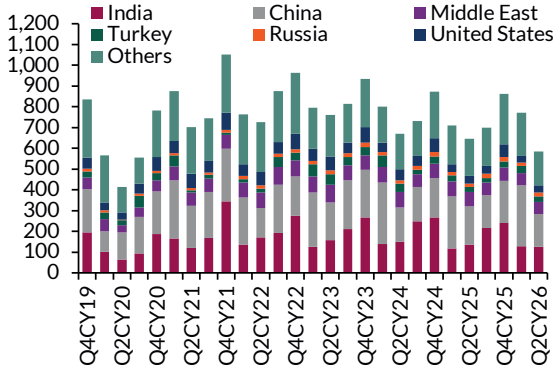
Source: World Gold Council, Axis Bank Research

Exhibit 7: But China is also contributing to reduced bar and coin demand



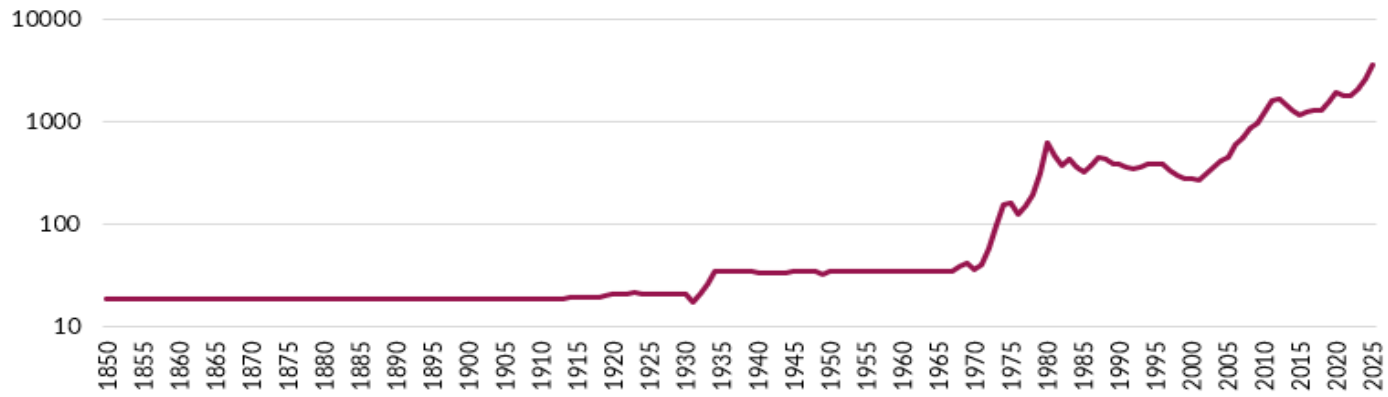
Source: World Gold Council, Axis Bank Research

Exhibit 8: With jewellery demand lower than usual in Q2, China slower



Source: World Gold Council, Axis Bank Research

Exhibit 9: Note historical recovery in jewellery demand during a price drop



Source: World Gold Council, Axis Bank Research

Gold capped through Jul, recovers early Aug

Gold prices were capped through much of July, with geopolitics, a French court decision to allow opposition politician Le Pen to run for elections, and with Fed speakers indicating hawkishness. However, the FOMC indicated that the bar to rate hikes was still high, and the USD later weakened with stronger Eurozone data and heavy joint US/Japan intervention in the JPY. This led prices to rise sharply in the current week.

Early July sees gold prices rise on lower inflation risks, but fall back with geopolitics

Gold prices opened July at USD 4029.91/troy ounce and fell quickly below the 4000 mark, only to rise back as Fed chair Warsh indicated inflation risks were lower. This was also helped by weaker US payrolls, closing the week at USD 4176.94/troy ounce.

The second week saw prices on the back foot, with tests of the JPY (absent MOF intervention) driving the USD to strengthen. And with evidence of demand exhaustion. Moves higher in the USD after FRB governor Waller also reaffirmed the 2% inflation target. Some reversal was seen as the GBP appreciated on political news, but negative tech sentiment, pickup in crude oil prices with Iran attacking ships in Hormuz, and clearing of French politician Le Pen to run in the 2027 elections pushed the USD higher. Again, relief after completion of another wave on US attacks on Iran being over allowed some gains, but gains in the USD after FOMC minutes offset this. Comments from US president Trump on Iran wanting to make a deal led the gold higher, despite US strikes on Iran. The week closed with some support in prices despite the stronger USD. The second week closed at USD 4119.93/troy ounce.

Geopolitics and Fed comments see gold trade below USD 4000/troy ounce

The third week saw gold prices come sharply lower with resumption of West Asia clashes over the weekend and with weakness in US tech. Some recovery was seen with recovery in equity risk sentiment and then lower US CPI inflation, though comments by Fed chair Warsh on mission not accomplished reversed the move. However, lower US CPI inflation was reinforced with lower PPI inflation, pushing prices up again. This was followed by stronger US retail sales and Philly Fed manufacturing, while Dallas Fed president Logan called for

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

Source: Bloomberg, Axis Bank Research

modestly higher interest rates. Moves up in the USD led gold prices to once again fall below the USD 4000/troy ounce level, This test was also helped by reports of the US hitting more Iranian infrastructure, and Iran hitting Kuwaiti water systems. However, shorts were squared at weekend and gold ended at USD 4017.39/troy ounce.

Hopes of US/Iran talks support prices

The fourth week opened with stable prices, and saw some Asian demand. Lower UK borrowing data and a tech recovery pushed the USD lower, supporting gold, though geopolitics reversed this move. Further demand was seen here with chatter of central bank demand. However, the second part of the week saw the USD rise with continued West Asia escalation. This pushed prices down, but comments around moving closer to US/Iran talks pushed prices back up. The fourth week closed with gold at USD 4052.79.

FOMC also provides support, despite geopolitics

The fifth week saw prices rise with moves down in the broad USD and yields, as the US and Iran paused attacks. Comments from Iran on talks not taking place led to some reversal, as did an equities risk-off with China making progress in chipmaking tools. Some support was also seen with good Eurozone data leading the USD lower, though fresh strikes by Iran once again reversed the move. Another strike by Iran targeting US troops in Jordan and comments of US president Trump hitting Iran hard led prices lower. The FOMC signalled a higher bar to rate hikes than assumed, leading the USD back down and oil prices back higher. Stronger Eurozone flash inflation and GDP growth, as well as the BOE MPC disagreeing on second round inflation effects led to further moves up in prices. Gains were also driven by JPY intervention driving the USD and treasury yields lower. July closed with prices at USD 4046.15/troy ounce.

Iran hopes, JPY intervention and geopolitics lead prices sharply higher

The first week of August saw prices supported by continued JPY intervention and the lower USD after US president Trump cancelled attacks on Iran. Comments by Qatar on the draft text of an Iran agreement being ready also pushed prices higher, with indications of a reopening of the Strait of Hormuz also helping.

Real yields and financial supply driving weaker gold

The fiscal dominance and currency debasement study driving gold prices appears to have taken a knock owing to the FOMC and real yields. The FOMC has indicated that the bar to a hike is high, but that to cuts ahead is even higher – before the West Asia conflict, markets were expecting cuts as the base case under chair Warsh. Apart from this, very heavy borrowing demand and fiscal spending have led real yields to rise sharply – this has historically been a counter to gold, with presence of income on TIPS securities making gold unattractive. Higher TIPS yields once again coincide with lower gold prices.

Contrary to market expectations, we see a high bar to Fed rate hikes

The FOMC is seen as hawkish, and likely to raise rates in the current year (chart). We disagree: First, the three dissents at the latest meeting were from members who were already seen as hawkish. Second, chair Warsh indicated rates might need to be hiked in case of broadening pressures, seen in a number of indicators including PCE inflation. The Dallas Fed's trimmed mean PCE number is actually coming lower, indicating only narrow inflation pressures (chart). Mr. Warsh has also in the past indicated a preference for watching concurrent indicators (read the observatory note on this and make chart).

Third, the task forces are yet to submit their findings. The task force on the balance sheet is likely to conclude that a large part of elevated inflation owes to the large balance sheet (chart). The task force on productivity and jobs is likely to suggest that AI and increased productivity will lower both long term inflation and long term rates (chart taking into account past productivity booms, use conference board total economy database). Fourth, there is a seasonality in data for H2 showing weaker activity prints (chart of any activity composite seasonal trends). It might only therefore be a case that data are strong enough to shift the centre of the FOMC towards a hawkish direction, and override the chairs vote (table on hawk dove neutral spectrum from observatory note).

Even though rates are not rising, term TIPS yields are

Past episodes of fiscal dominance driven gold price increases have been at times when TIPS yields are negative, and with near-end rates also held back, For now, one of these ingredients is missing. While there might be barriers to hikes at the Fed and the BOJ, indications of reduction in the Fed's balance sheet as well as Japanese repatriation are increasing supply of sovereign paper. At the same time, AI capex is driving heavy issuance, also pushing yields higher. Lesser forward guidance has also contributed to larger term premium. These factors have led to a rapid increase in TIPS yields – though these might be excessive given that inflation break-evens have actually fallen in the same period.

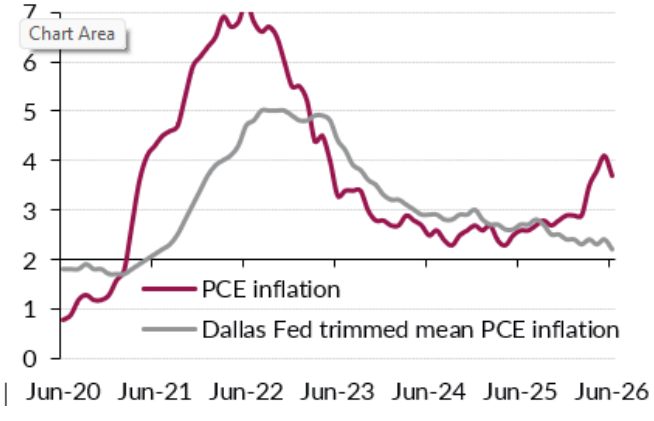
For fiscal dominance to play out effectively, TIPS yields need to come lower, like in the 1970s. In this period, high fiscal spending, low TIPS yields and low rates drove the USD to lose value. Were these conditions satisfied, perhaps through QE, potential for gold prices to rise strongly exists. Barring this, the increase is likely to be slow as higher near-term inflation drives money expansion, but this impact is offset by higher term rates.

The influence of higher TIPS yields is also seen in further ETF supply – this is only concentrated in the US, with demand fairly strong elsewhere. ETF linked gold supply is largely a financial trade linked to TIPS yields.

Exhibit 11: Fed hikes from start of year level – Markets see Fed moving 25-50 bps this year

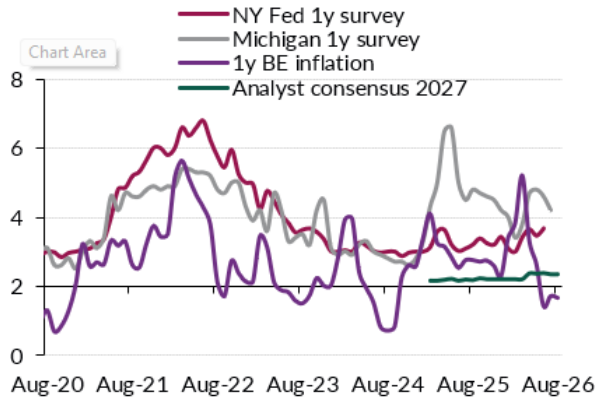
Source: Bloomberg, Axis Bank Research

Exhibit 12: The Dallas Fed trimmed mean PCE is one measure chair Warsh watches for underlying trends



Source: Bloomberg, Axis Bank Research

Exhibit 13: Mr. Warsh also prefers forward looking expectations, which are mixed – does BE lead surveys?



Source: Bloomberg, Axis Bank Research

Exhibit 14: The Fed's balance sheet is still extraordinarily large

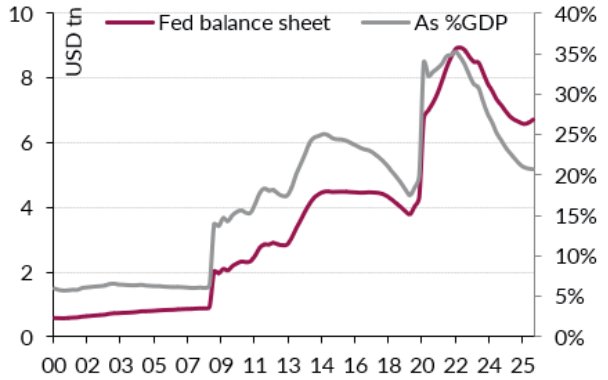


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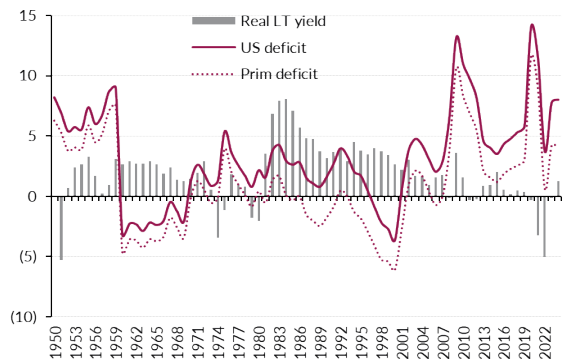
Exhibit 15: Note suppression of real rates in these periods leading gold prices higher



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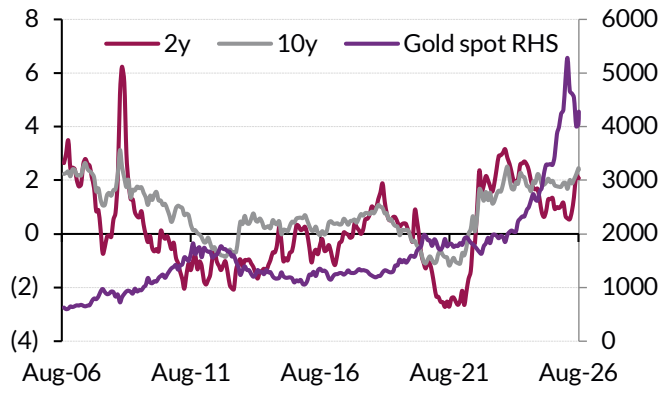

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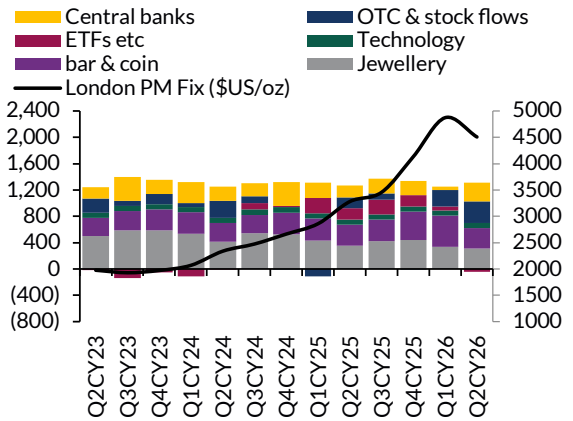
But physical investment is also lower

Apart from supply seen in US and then Chinese ETFs, there are also concerns in terms of physical demand. According to the World Gold Council, identifiable demand at 941.8 tonnes in the Jun quarter was the lowest since 2021, but supply remained strong. Weaker demand was largely driven by a drop in both jewellery and gold bars. The latter is seen as a form of physical investment, agreeing with the negative ETF contours.

As anecdotes suggest, the weakness in physical demand was seen in India, but also in China. Chinese bar and coin demand which had surged in the past few quarters was also lower. It appears that retail sentiment has turned away from gold, given loss of momentum. Offsetting this demand was unusually high central bank buying, though the numbers still saw a large overhang, pulling prices lower.

Exhibit 17: Physical demand has been lower in the last quarter



Source: World Gold Council, Axis Bank Research

Exhibit 18: With jewellery demand lower than usual in Q2, China slower

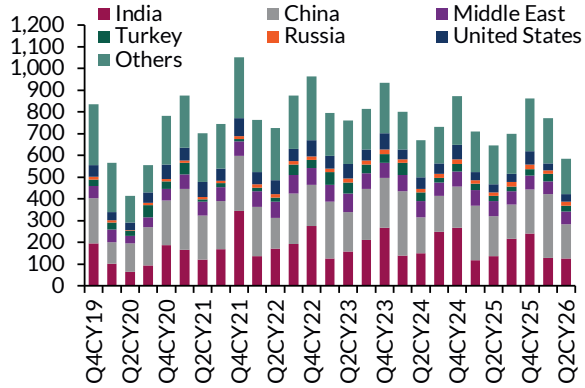


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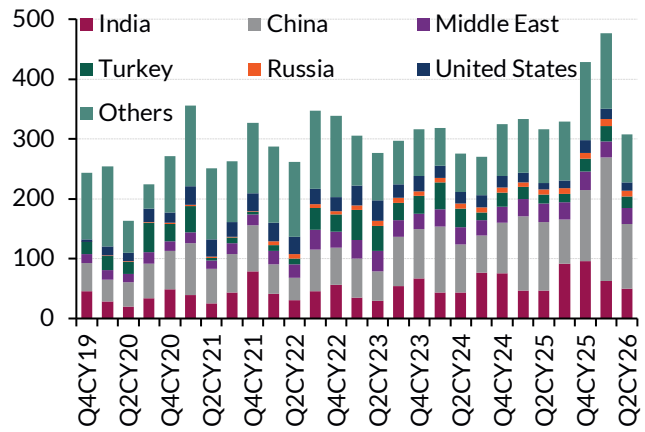
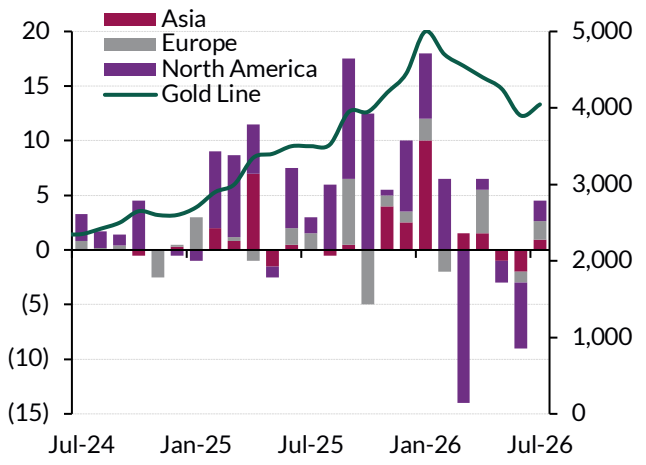
Exhibit 19: But China is also contributing to reduced bar and coin demand



Source: World Gold Council, Axis Bank Research

Exhibit 20: There are indications that the US has ended its run of ETF supply



Source: World Gold Council, Axis Bank Research

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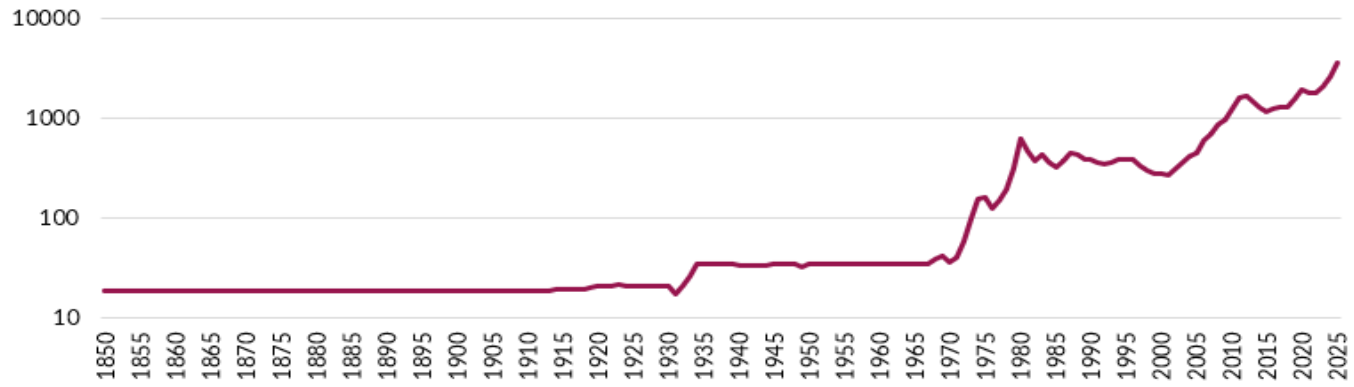

Source: World Gold Council, Axis Bank Research

A future recovery might then depend on a mix of fiscal dominance as well as retail demand – requiring moves to actively push TIPS yields lower amid momentum in gold prices that pull retail investors in. While not impossible, this might now be seen sometime in the future rather than in the near end.

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.

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