

Goldbug: Party like it's 1972?

Gold prices traded largely ranged in August, with early demand on weaker payrolls offset by pickup in US inflation – though Jackson Hole comments from Fed chair Powell saw resistance to Sep rate cuts fade and prices rise. Correlations of gold with TIPS and ETF demand as a highly financialized asset have weakened of late, with risk profiles of other assets changing. We look at the 1930s and 1970s for echoes, with fiscal dominance and fluidity in global rules potential factors this time as well. While this should keep prices high, eventual emergence of a new rules based system might bring prices down.

September 03, 2025

Gold

Monthly update

Exhibit 1 - Gold price projections



Source: Bloomberg, Axis Bank Research

Jackson Hole comments support gold, after supply on higher inflation

Gold rose early in August with softer US nonfarm payrolls and ISM manufacturing PMI, as well as US comments of gold being included under reciprocal tariffs. The second week saw gold come lower with the US clarifying that gold would in fact not attract reciprocal tariffs, while PPI and import inflation, as well as University of Michigan inflation expectations, turned higher. The third week saw prices fall on cautious FOMC minutes, but rise back after Jackson Hole comments from Fed chair Powell indicated openness towards a Sep rate cut.

Gold once again behaving as a true risk-free asset

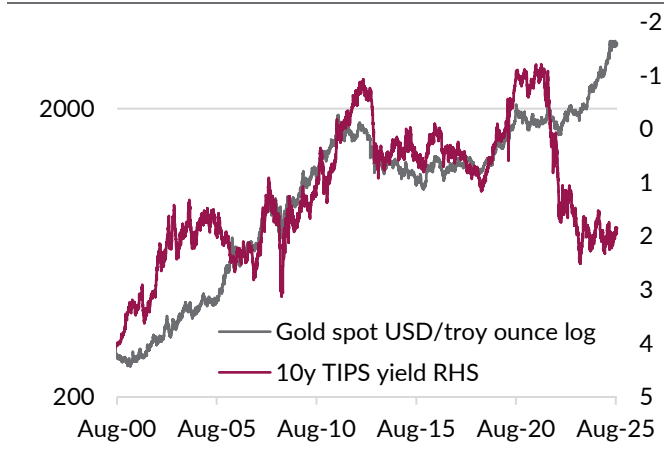
Gold has a long history as a haven asset, but with increasing financialisation of commodity markets, had become strongly linked to moves in other zero-yielding risk-free assets like TIPS (Fig 2), with ETFs an easy way to take exposure without physical storage (Fig 3) – of late, correlations have begun to weaken. Central banks, and recently, ETFs have stepped up buying (Fig 4), even though Chinese ETF buying (Fig 5) to hedge devaluation risks have ended (Fig 6). What might explain the break of gold correlations? Treasury markets are suddenly imbued with risk, with fiscal dominance manifesting as rapid rate cuts part of the mix – seen in rising term premium with falling rate expectations (Fig 7). In the past, this environment has supported gold price increases.

There is a history to gold rising with mercantilism and fiscal dominance

Gold prices rose sharply in the 1930s with a wave of currency devaluation, and then in the 1970s when faster global money growth led to unsustainable pressures on the Bretton Woods system (Figs 8-9). While these conditions are not perfectly being replicated as of now, there are echoes. As above, fiscal dominance is becoming a risk, arguing for higher gold prices. However, if a new rules-based system were to emerge, gold prices would come back lower to an extent. The first major risk comes from US mid-term elections and pronouncements ahead of this.

Tanay Dalal

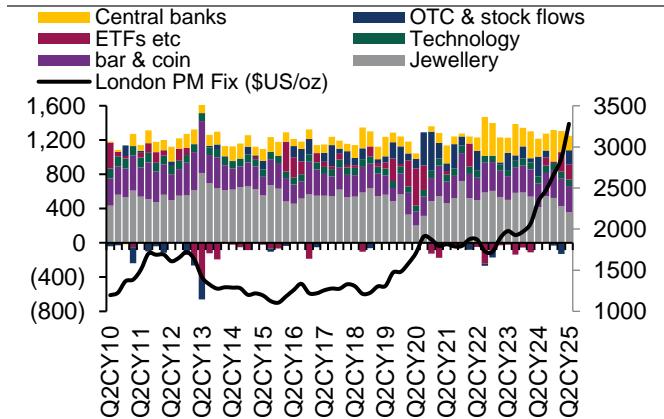
Tanay.dalal@axisbank.com

Exhibit 2 - Gold moved with TIPS, until now


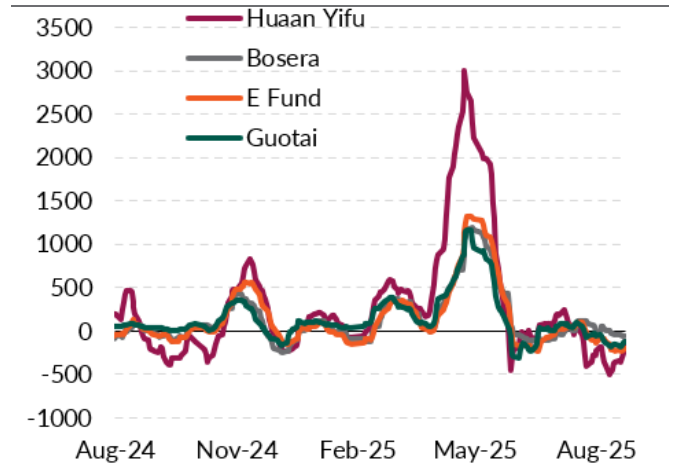
Source: Bloomberg, Axis Bank Research

Exhibit 3 - ETF flows correlated with gold prices

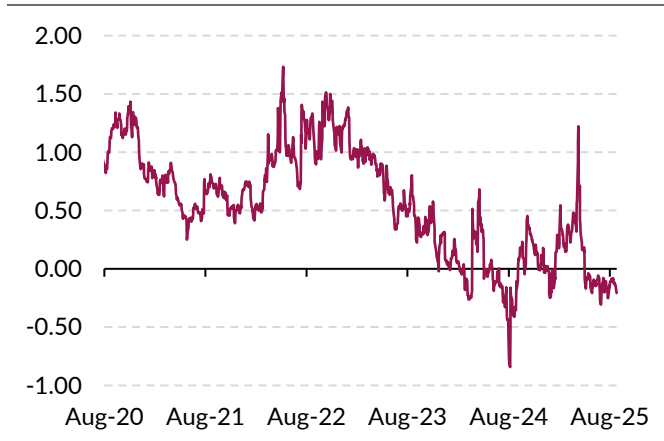

Source: Bloomberg, Axis Bank Research

Exhibit 4 - Central bank demand share increasing


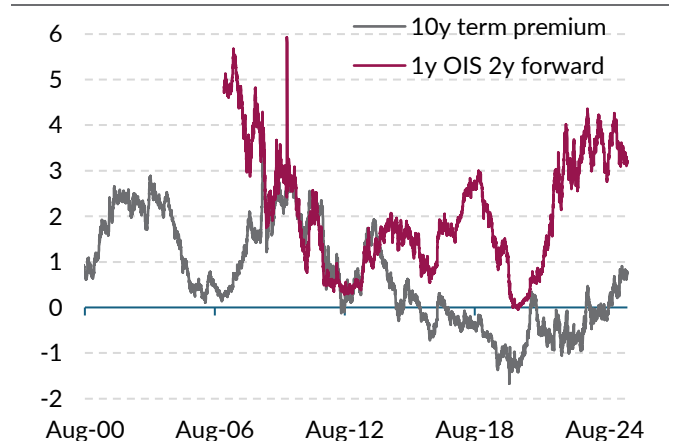
Source: Bloomberg, Axis Bank Research

Exhibit 5 - Chinese ETF flows to gold


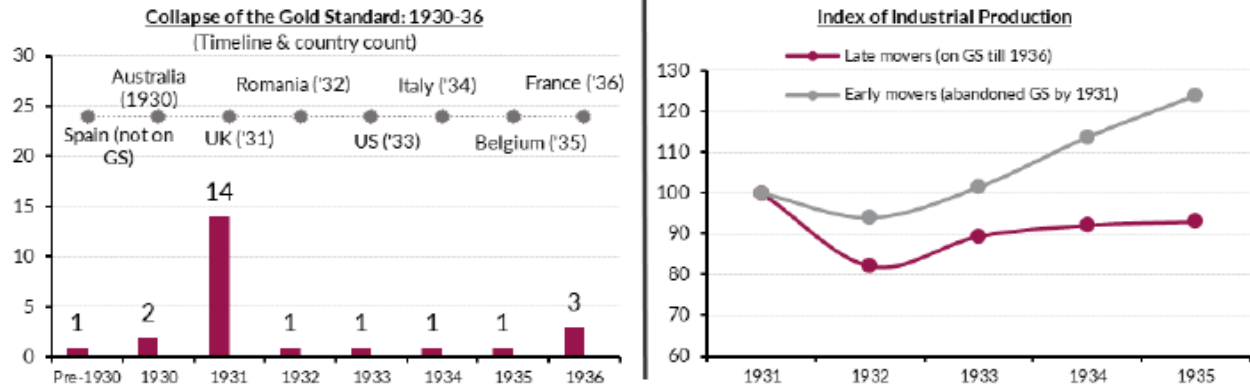
Source: Bloomberg, Axis Bank Research

Exhibit 6 - USD/CNH 3m RR - devaluation risk over?


Source: Bloomberg, Axis Bank Research

Exhibit 7 - US term premium up with lower near rates


Source: Bloomberg, Axis Bank Research

Exhibit 8 - 23 countries abandoned the gold standard after the Great Depression, early movers recovered faster


Source: NBER WP no. 3488 (1990), Axis Bank Research

Jackson Hole comments support gold, after supply on higher inflation

Gold rose early in August with softer US nonfarm payrolls and ISM manufacturing PMI, as well as US comments of gold being included under reciprocal tariffs. The second week saw gold come lower with the US clarifying that gold would in fact not attract reciprocal tariffs, while PPI and import inflation, as well as University of Michigan inflation expectations, turned higher. The third week saw prices fall on cautious FOMC minutes, but rise back after Jackson Hole comments from Fed chair Powell indicated openness towards a Sep rate cut. The last week of the month saw prices rise with France and Fed risks, as well as treasury rebalancing flows that pushed yields and the USD down.

Gold rises in first week on softer US data and reciprocal tariffs

Gold opened Aug at USD 3296.40/troy ounce, rising sharply on the first day of the month with weaker US payrolls as well as ISM manufacturing PMI that boosted market expectations of Fed rate cuts. Momentum continued with weaker Eurozone Sentix PMI and revision down in US durable goods orders that brought treasury yields lower. Some profits began to be taken here especially after a weaker 3y treasury auction, though prices rose after softer US ISM services PMI. Profit taking again came in after weaker German factory orders supported the USD. Demand came in afresh with moves lower in treasury yields after FRB governor Waller was said to emerge as the favourite for Fed chair (with an internal candidate seen having a better chance of preserving credibility). However, US comments Gold inverse relationship to treasury yields returns after hiatus



Source: Bloomberg, Axis Bank Research

on gold being subject to reciprocal tariffs took prices sharply higher at the end of the week. Gold closed the week at USD 3397.75/troy ounce.

Gold comes lower in second week with US clarification, higher inflation

The second week saw gold prices fall sharply with US president Trump indicating that gold would not be subject to reciprocal tariffs, as well on optimism around the Ukraine war with talk around a meeting between Ukrainian president Zelensky and Russian president Putin. Gold prices were then ranged, but rose with moves down in treasury yields after US CPI inflation data showed limited indications of tariff-driven inflation. However, gold fell at the end of the week with recovery in treasury yields with higher US PPI and import price inflation, as well as higher University of Michigan inflation expectations and retail sales data. The week ended with gold at USD 3336.19/troy ounce.

Jackson Hole leads prices higher, after FOMC and geopolitics brings supply

The third week saw some early profit taking in gold with moves higher in treasury yields given Jackson Hole caution. This was added to by an offer from US president Trump of US air support for countries that put boots on the ground in Ukraine after a ceasefire, leading gold prices lower still. However, a fresh pressure campaign against FRB governor Cook led gold prices back higher. FOMC minutes that appeared to signal caution around near-term rate cuts pulled prices lower – until late in the week where Fed chair Powell indicated fading resistance to a Sep move. Gold ended the third week at USD 3371.86/troy ounce.

Last week sees gold rise on Fed and France risks, rebalancing flows into treasuries

The fourth week began with gold largely stable, given moves higher in both treasury yields and the USD – with US president Trump having fired FRB governor Cook and with French political worries respectively. However, these same drivers later led risk aversion flows back into gold. The end of the week saw moves higher helped by rebalancing-related flows leading treasury yields and the USD lower, as well as US PCE inflation also showing no signs of tariff-driven inflation. Gold ended the month at USD 3447.95/troy ounce.

Gold once again behaving as a true risk-free asset

Gold has a long history as a haven asset, but with increasing financialisation of commodity markets, had become strongly linked to moves in other zero-yielding risk-free assets like TIPS, with ETFs an easy way to take exposure without physical storage – of late, correlations have begun to weaken. Central banks, and recently, ETFs have stepped up buying, even though Chinese ETF buying to hedge devaluation risks have ended. What might explain the break of gold correlations? Treasury markets are suddenly imbued with risk, with fiscal dominance manifesting as rapid rate cuts part of the mix – seen in rising term premium with falling rate expectations. In the past, this environment has supported gold price increases.

Gold had become highly financialised – until now

Gold has had a history of being seen as a haven asset, rising in times of geopolitical uncertainty or high volatility. These functions have also been performed by US treasuries, with QE driving TIPS markets also to a zero yielding, risk-free asset. Given these developments, movements in gold and TIPS increasingly became correlated over the 2000s, with the haven function of gold distorted by algorithmic trading and correlations. Correlations also increased with the development of gold ETFs, allowing for easy access to quick gold supply in financialised form.

However, these correlations have lately broken down, perhaps with treasury markets not being considered totally risk-free. This is also seen in pickup in US policy uncertainty, as well as widening of the US term premium.

Central banks are increasingly part of the demand picture

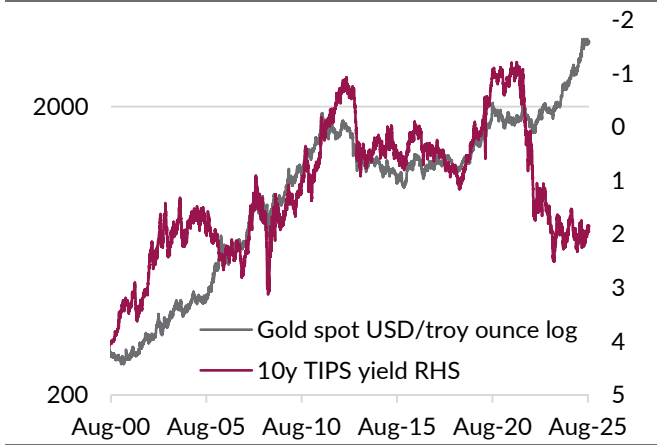
Central banks have become a larger source of global gold demand – this was initially triggered by the Ukraine war with risks around FX reserves held in the USD, with demand also coming from central banks of China, Iran, Venezuela, etc. At the same time other central banks (including the RBI) began to increase holdings of gold, as policy diversification and in line with overall FX reserves.

Chinese ETF demand had also picked up, potentially on worries around the CNY

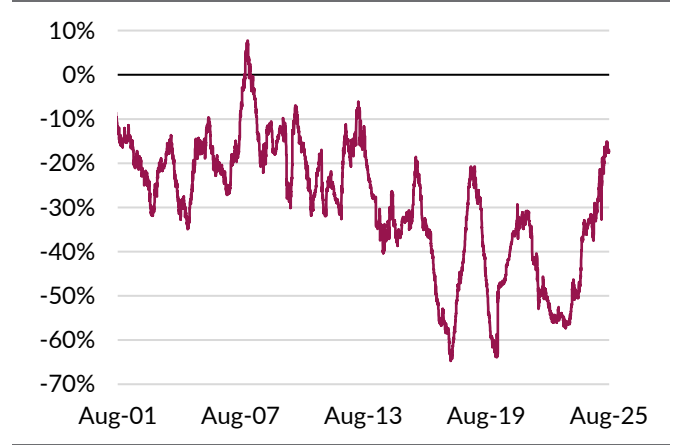
Increased demand by Chinese ETFs, even as global ETF holdings were lower with high treasury yields became notable some time ago. To an extent, these might be linked to worries around a CNY devaluation, with gold ETFs one hedge for currency risk available onshore. Demand from this sector has slowed of late, with more limited fears of a CNY devaluation, but with continued uncertainty on the US/China relationship, can continue to be a factor going forward.

With lower correlations and increasing geopolitical risk premiums, gold might once again become a true risk-free asset

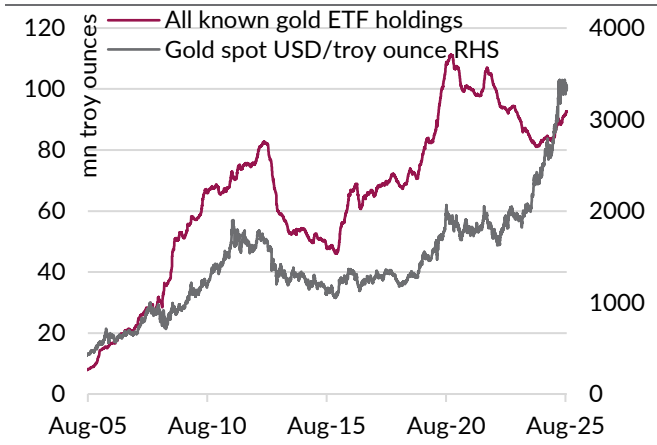
With correlations breaking down and more restricted global financial flows (financial barriers are logical corollaries to trade barriers, and historically have been required to balance BOP), the role of treasuries or other government bonds as risk-free assets is now in question. Fiscal pressures might also reduce the appeal of these assets. In this environment, gold might once again rise in the overall safe asset universe to become an unbiased risk-free asset.

Exhibit 9 - Gold moved with TIPS, until now


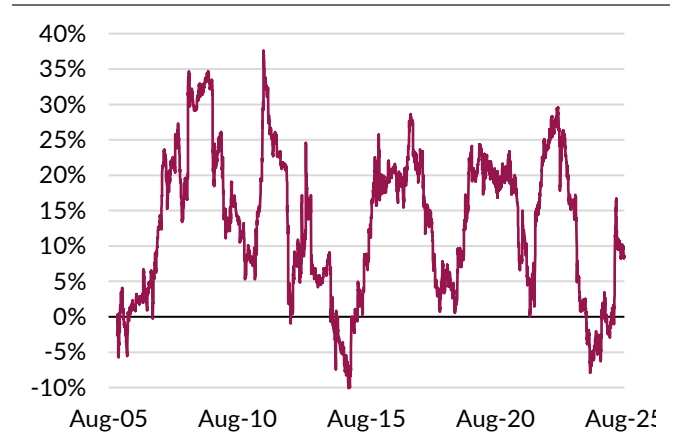
Source: Bloomberg, Axis Bank Research

Exhibit 10 - Negative correlation now past peak


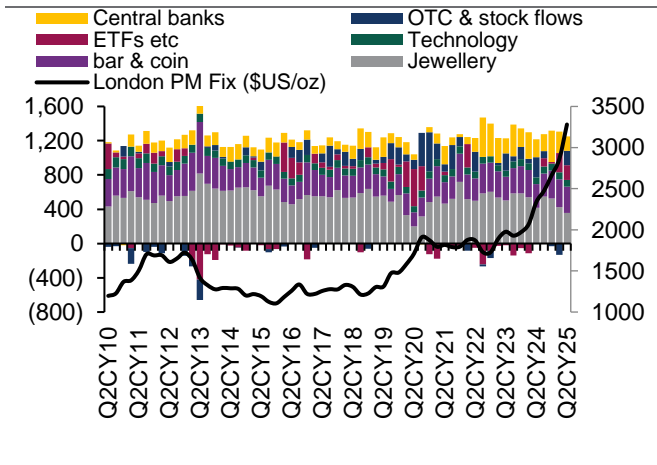
Source: Bloomberg, Axis Bank Research

Exhibit 11 - ETF flows correlated with gold prices


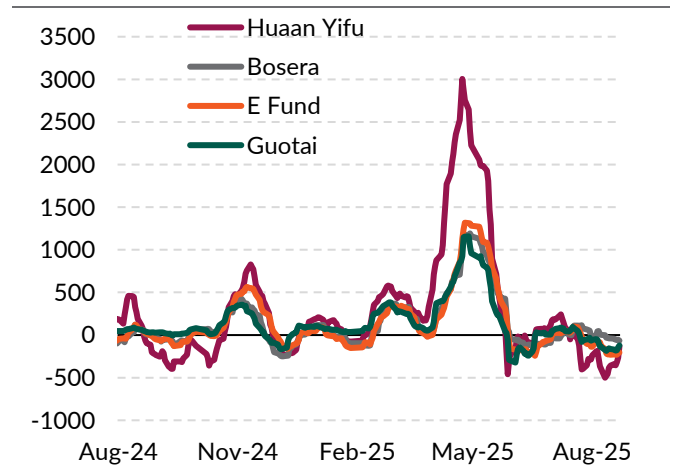
Source: Bloomberg, Axis Bank Research

Exhibit 12 - Correlation here also been shaken


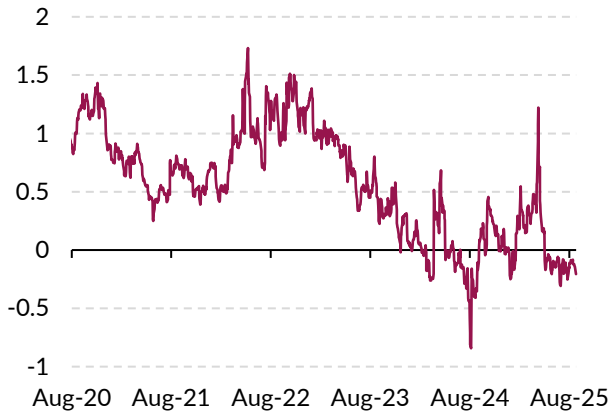
Source: Bloomberg, Axis Bank Research

Exhibit 13 - Central bank, ETF demand increasing


Source: WGC, Axis Bank Research

Exhibit 14 - Chinese ETFs have stalled


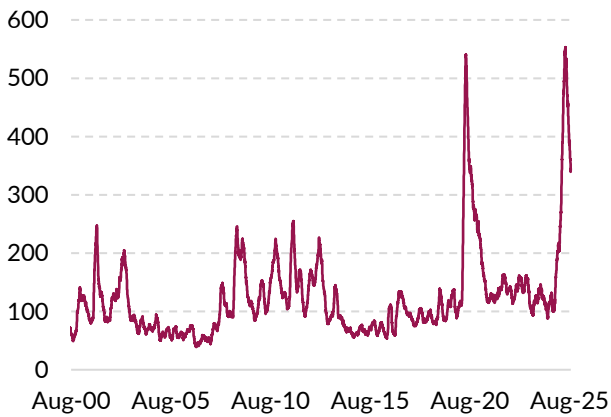
Source: Bloomberg, Axis Bank Research

Exhibit 15 - USD/CNH RR - devaluation over?


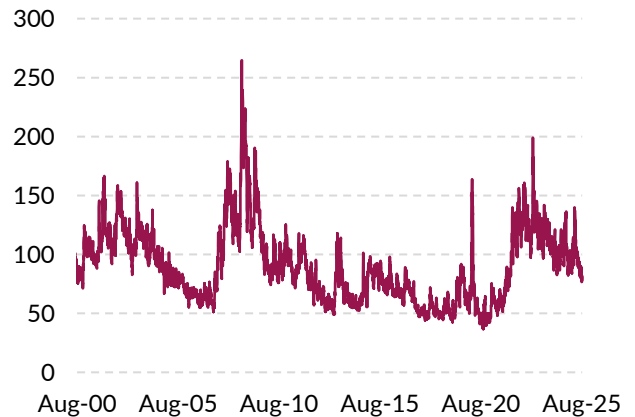
Source: Bloomberg, Axis Bank Research

Exhibit 16 - Treasury term premium rising


Source: Bloomberg, Axis Bank Research

Exhibit 17 - US policy uncertainty index - 65 day avg


Source: Bloomberg, Axis Bank Research

Exhibit 18 - Move treasury volatility - higher


Source: Bloomberg, Axis Bank Research

There is a history to gold rising with mercantilism and fiscal dominance

Gold prices rose sharply in the 1930s with a wave of currency devaluation, and then in the 1970s when faster global money growth led to unsustainable pressures on the Bretton Woods system. While these conditions are not perfectly being replicated as of now, there are echoes. As above, fiscal dominance is becoming a risk, arguing for higher gold prices. However, if a new rules-based system were to emerge, gold prices would come back lower to an extent. The first major risk comes from US mid-term elections and pronouncements ahead of this.

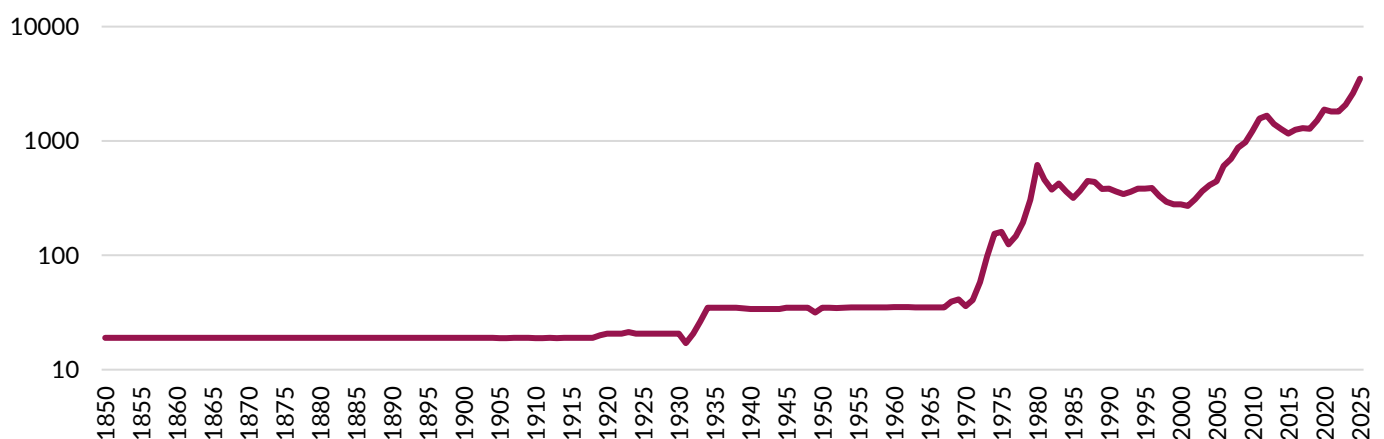
Mercantilism and industrial policy have driven higher gold prices in the past

We look back to the 1930s for similar situations, where the US Smoot-Hawley tariff act set off a wave of competitive devaluation against gold, with clear evidence of first-mover advantage. Moves in the 1970s also track the unsustainable situation in terms of global BOP vs Bretton-Woods, allowing for free trade of gold. These were also times of high money supply growth.

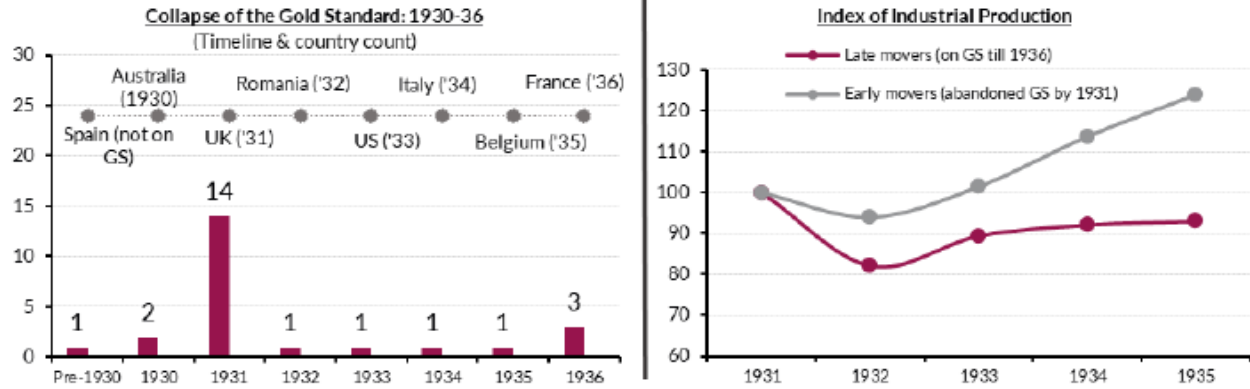
Fiscal dominance might become part of the lexicon going forward

Fiscal dominance might also play a part in driving gold prices higher – if defence and other drivers lead to rates being kept lower than inflation targeting would argue, the effect would be of devaluation. While this is not the base case, it might be a risk worth looking at in markets. Again, these drivers argue for higher gold prices, but without these being realised and if a new rules-based system were to emerge, risks to gold prices are to the downside.

Exhibit 19 - Gold prices rose multifold in the 1930s, 1970s, 2000s



Source: WGC, Axis Bank Research

Exhibit 20 - 23 countries abandoned the gold standard after the Great Depression, early movers recovered faster


Source: NBER WP no. 3488 (1990), Axis Bank Research

Disclaimer: The report and information contained herein is of confidential nature and meant only for the selected recipient and should not be altered in any way, transmitted to, copied, or distributed, in any manner and form, to any other person or to the media or reproduced in any form, without prior written approval of Axis Bank. The material in this document/report is based on facts, figures and information that are obtained from publicly available media or other sources believed to be reliable and hence considered true, correct, reliable and accurate but Axis Bank does not guarantee or represent (expressly or impliedly) that the same are true, correct, reliable and accurate, not misleading or as to its genuineness, fitness for the purpose intended and it should not be relied upon as such. The opinion expressed (including estimates, facts, figures and forecasts) is given as of the date of this document is subject to change without providing any prior notice of intimation. Axis Bank shall have the rights to make any kind of changes and alterations to this report/ information as may be required from time to time. However, Axis Bank is under no compulsion to maintain or keep the data/information updated. This report/document does not mean an offer or solicitation for dealing (purchase or sale) of any financial instrument or as an official confirmation of any transaction. Axis Bank or any of its affiliates/ group companies shall not be answerable or responsible in any way for any kind of loss or damage that may arise to any person due to any kind of error in the information contained in this document or otherwise. This document is provided for assistance only and should not be construed as the sole document to be relied upon for taking any kind of investment decision. The recipient is himself/herself fully responsible for the risks of any use made of this information. Each recipient of this document should make his/her own research, analysis and investigation as he/she deems fit and reliable to come at an independent evaluation of an investment in the securities of companies mentioned in this document (including the merits, demerits and risks involved), and should further take opinion of own consultants, advisors to determine the advantages and risks of such investment. The investment discussed or views expressed herein may not suit the requirements for all investors. Axis Bank and its group companies, affiliates, directors, and employees may: (a) from time to time, have long or short positions in, and deal (buy and/or sell the securities) thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn commission/brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The applicable Statutory Rules and Regulations may not allow the distribution of this document in certain jurisdictions, and persons who are in possession of this document, should inform themselves about and follow, any such restrictions. This report is not meant, directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would not be in conformation to the law, regulation or which would require Axis Bank and affiliates/ group companies to obtain any registration or licensing requirements within such jurisdiction. Neither Axis Bank nor any of its affiliates, group companies, directors, employees, agents or representatives shall be held responsible, liable for any kind of consequential damages whether direct, indirect, special or consequential including but not limited to lost revenue, lost profits, notional losses that may arise from or in connection with the use of the information. Prospective investors and others are cautioned and should be alert that any forward-looking statements are not predictions and may be subject to change without providing any notice. Past performance should not be considered as a reference to future performance. The disclosures of interest statements if any included in this document are provided only to enhance the transparency and should not be construed as confirmation of the views expressed in the report. The views expressed in this report reflect the personal views of the author of the report and do not reflect the views of Axis Bank or any of its associate and group companies about the subject company or companies and its or their securities.

Disclaimer for Singapore clients: This document is published by Axis Bank Limited, India ("Axis Bank") and is distributed in Singapore by Axis Bank. This document is not a research analysis or report concerning any investment product. This document does not provide or purports to provide individually tailored investment advice, commentary or opinion. The contents in this document have been prepared and are intended for general distribution strictly to accredited investor, expert investor or institutional investor. A recipient of this document shall not provide or circulate this document to any other person. The contents in this document do not take into account the specific investment objectives, financial situation, or particular needs of any particular person. The instruments and product types mentioned in this document may not be suitable for all investors. You should independently evaluate particular investments or product types and seek independent advice from a financial adviser regarding the suitability of such instruments or product types, taking into account your specific investment objectives, financial situation and particular needs, before making a commitment on any instruments or product types. This is because the appropriateness of a particular instrument or product type will depend on your individual circumstances and investment objectives, financial situation and particular needs. The instruments and product types mentioned in this document may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Disclaimer for DIFC clients: Axis Bank Limited (DIFC branch) is duly licensed and regulated in the Dubai International Financial Centre by the Dubai Financial Services Authority ("DFSA"). This document is intended for use only by Professional Clients (as defined in the Rule 2.3 of the Conduct of Business Module of the DFSA Rulebook) who satisfy the regulatory criteria set out in the DFSA Rules, and should not be relied upon, acted upon or distributed to any other person(s) other than the intended recipients