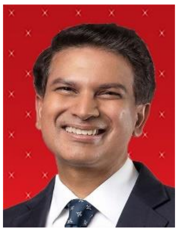
Macro Insights Weekly

Gold and geoeconomics

Group Research **May 26, 2025**



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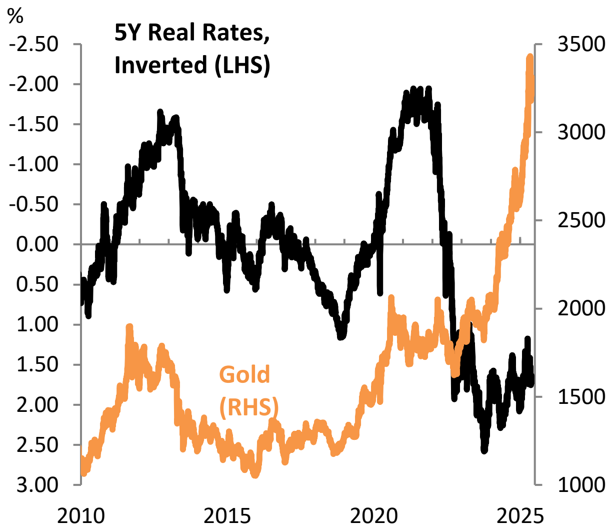
- *Typically, gold, as a zero-yielding asset, loses value when real rates rise. But in this cycle, gold has kept climbing through high rates. What gives? We see a multiplicity of factors at play.*
- *Between 2007 and 2021, gold was highly correlated with real interest rates.*
- *Since then, the power of real rates to explain movement in gold price has become essentially zero.*
- *Interest in gold runs across retail and institutional, private and public investors.*
- *Inflation and fiscal fears, and USD weaponisation explain rising interest in gold.*
- *Trade war and global security concerns are playing a lasting role as well.*

Chart of the Week: Gold's anomalous rise

Gold has typically acted as a hedge against inflation, currency debasement, and geopolitical risks. The historical correlation with real interest rate has been negative, with the zero yielding gold rising in value when rates fell. But gold's rally over the past few years have taken place while real rates have been substantially positive. Wars, pandemic, USD weakness, trade war, and currency weaponisation have fuelled sustained investor interest across retail, institutional, and public sectors. It's unlikely that this trend would abate.

Gold vs Real Interest Rates

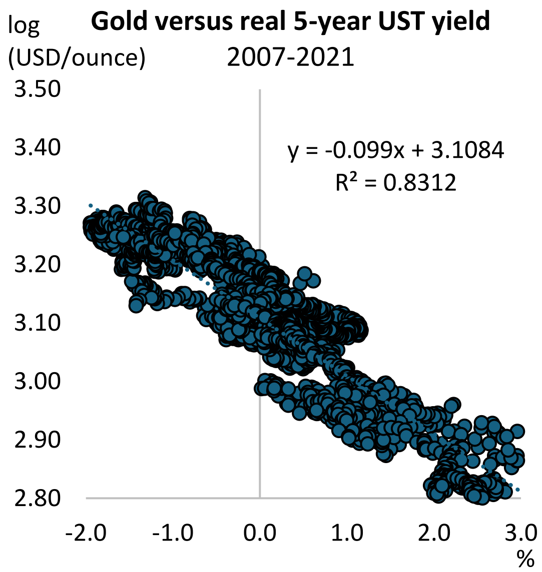


Source: Bloomberg, DBS

Commentary: Gold and geoeconomics

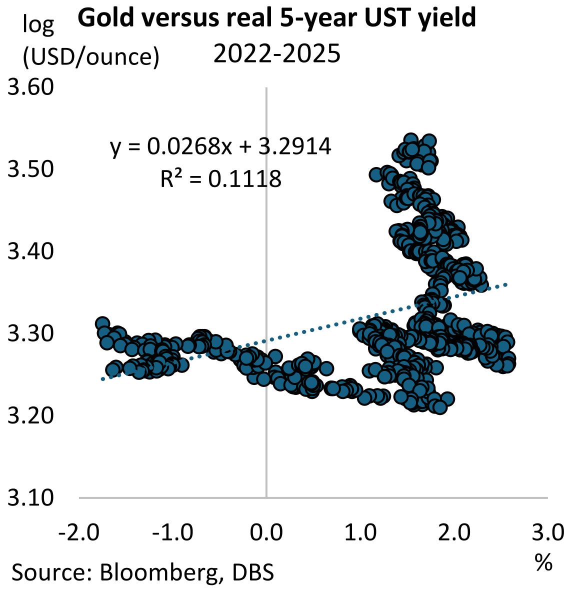
Gold should be well under USD2000/ounce, but it is at USD3350. Why should it be at sub-$2000 and why is at $3350? Let's go with the first point. Historically, gold, a store of value that yields zero, has been negatively correlated with real interest rates. Using 15 years of data, spanning 2007-21, we find a sizeable and statistically significant negative relationship between gold and real interest rates. The log of gold price finds a 0.83 linear fit with real interest rate, which we calculate as the difference between 5-year treasury yield and market-based measure of inflation expectations. Going with this model of gold price, the prevailing real interest rate of about +1.6% should be associated with gold price at about USD1600/ounce.

But this model is based on pre-2022 data; a regime change has taken place in gold price determination, it seems. From 2022 onward, as the Fed began hiking rates to combat inflation, gold defied the historical trend. Instead, of correcting when yields rise, the price of gold has kept climbing since then.



Source: Bloomberg, DBS

Running the same relationship using data from the beginning 2022 to May 2025, we find an entirely different set of estimates. There is no statistical significance whatsoever; the power of real interest rates to explain movement in gold price has become essentially zero.



Source: Bloomberg, DBS

From gold analysts to Large Language Models, the reasons for gold's anomalous rise in recent years are well articulated. Investors, retail and institutional alike, are fearful of inflation's return; they are wary of the weaponisation of the USD; they are concerned about the US fiscal situation; they have exceptionally high anxiety about geoeconomic developments, from trade war to China-US rivalry; and they are worried about various global security hot spots.

Not one factor can explain gold's relentless rise, but put together the full list, it becomes clear why a zero-yielding asset can do well when yields are rather high. Even if markets scale back expectations of Fed rate cuts in the coming months, chances are that gold will remain in favour. Gold shines during times of uncertainty; there are no signs of that changing soon.

Taimur Baig

FX: USD is struggling to revive its haven status

Fiscal worries are weighing on the USD. The DXY Index depreciated by 2% last week and extended its decline below 100. The US Treasury 30Y yield increased above 5% for the first time since late October 2023. **The Trump administration faces resistance from fiscal hawks in the Senate to pass US President Donald Trump's sweeping tax cut agenda.** The narrow 215-214 vote on May 22 in the US House of Representatives to pass Trump's "Big Beautiful Bill" reflected US lawmakers' worries about Moody's rationale – the lack of progress by successive US administrations to reverse the trend of large annual fiscal deficits and growing interest costs – for axing America's final triple-A debt rating on May 16.

Fears of an escalation in US-EU trade tensions have subsided. Following a phone call with European Commission Ursula von der Leyen, Trump has agreed to Brussels's request to revert to the original tariff deadline on EU imports to July 9. Brussels indicated its willingness to hasten trade talks with Washington after Trump threatened a 50% tariff on June 1. **However, the trade talks will not be easy.** EU wants bilateral discussions to be based on mutual respect and not threats. Brussels wants to focus on the bilateral trade deficit. However, Trump is more interested in reshoring manufacturing operations to the US, as reflected by his tariff threats on Apple and Samsung mobile phones. With an imminent escalation in US-EU trade tensions averted for now, the DXY will likely continue depreciating, mirroring its present decline started on May 12, when the US and China de-escalated global trade tensions by scaling back tariffs on each other and entering a 90-day pause to facilitate trade talks.

Pay attention to US data. On May 27, we will be **cautious about** the expectations for the US Conference Board's **consumer confidence index** to improve to 87 in May from 86 in April. Over the same period, the University of Michigan's (UoM) consumer sentiment index declined from 52.2 to 50.8, its second-lowest reading on record. On May 30, **PCE inflation is expected to mirror CPI inflation in slowing** to 2.2% YoY in April from 2.3% in March, with core inflation moderating to 2.5% from 2.6%. However, the UoM survey saw Trump's tariffs lifting inflation expectations to 7.3% in May from 6.5% in April for the next 12 months and to 4.6% from 4.4% over the next 5-10 years.

Expect this week's Fed speakers to lean towards inflation or stagflation in their assessment of US tariffs. **More Fed officials may join** Atlanta Fed President Raphael **Bostic in supporting only one rate cut this year** vs. the two reductions pencilled in the March Summary of Economic Projections.

Overall, the greenback has been finding it difficult to revive its haven status because of Trump's conflicting policy agenda for higher tariffs and large tax cuts and his desire for lower interest rates and a weaker USD.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)