Gold Market Commentary

Riding a wave of uncertainty

Dollar weakness and ETF flows fuel gold

Gold continued its uptrend in February, hitting multiple new highs before pulling back to end the month at US$2,835/oz – up 0.8% m/m.[1] This performance was echoed across major currencies, all of which also registered new record highs (**Table 1**). General interest in gold was bolstered by continued flows of gold into COMEX inventories, driven by continued tariff uncertainty.

According to our Gold Return Attribution Model (**GRAM**), US dollar weakness during the month was one of the primary drivers of gold's performance, alongside an increase in geopolitical risk and a drop in interest rates (**Chart 1**). And while gold's strong price appreciation in January created a small drag, it was counterbalanced by positive support from flight-to-quality flows. This was best illustrated by gold ETF activity, which saw massive net inflows of US$9.4bn (100t) – the strongest month since March 2022 – led by US- and Asian-listed funds.

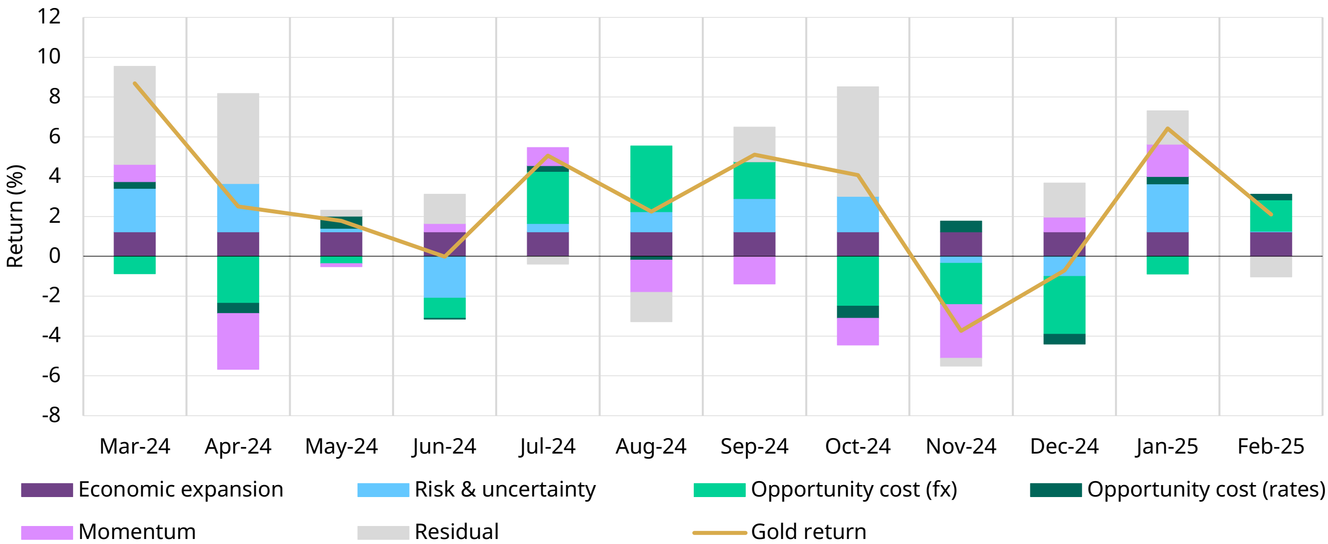
Highlights

February review
Gold hit new highs during the month, supported by a weaker US dollar, extending its y-t-d gains to 9%.

Looking forward
Rising inflation expectations, lower rates, and continued geoeconomic uncertainty are playing in gold's favour.

Chart 1: US dollar weakness and flight-to-quality flows supported gold

Key drivers of gold's return by month*



*Data to 28 February 2025. Our Gold Return Attribution Model (GRAM) is a multiple regression model of monthly gold price returns, which we group into four key thematic driver categories of gold's performance: economic expansion, risk & uncertainty, opportunity cost, and momentum. These themes capture motives behind gold demand; most importantly, investment demand, which is considered the marginal driver of gold price returns in the short run. 'Unexplained' represents the percentage change in the gold price that is not explained by factors already included. Results shown here are based on analysis covering an estimation period from February 2007 to February 2025.
Source: Bloomberg, World Gold Council

1. Based on the LBMA Gold Price PM as of 28 February 2025. Gold recorded an all-time high of US$2,936.85/oz on 19 February 2025.

Table 1: Gold hit new highs during February, strengthening its y-t-d performance

Gold price and performance in key currencies*

	USD (oz)	EUR (oz)	JPY (g)	GBP (oz)	CAD (oz)	CHF (oz)	INR (10g)	RMB (g)	TRY (oz)	AUD (oz)
February price*	2,835	2,732	13,727	2,254	4,099	2,560	84,789	672	103,372	4,565
February return*	0.8%	0.7%	-2.2%	-0.7%	0.2%	-0.1%	3.7%	4.3%	2.8%	0.9%
Y-t-d return*	8.6%	8.4%	4.0%	8.1%	9.2%	8.1%	11.7%	9.0%	12.0%	8.2%
Record high price*	2,937	2,821	14,356	2,346	4,192	2,658	86,360	689	106,908	4,636
Record high date*	19-Feb	19-Feb	13-Feb	10-Feb	25-Feb	19-Feb	19-Feb	20-Feb	25-Feb	13-Feb

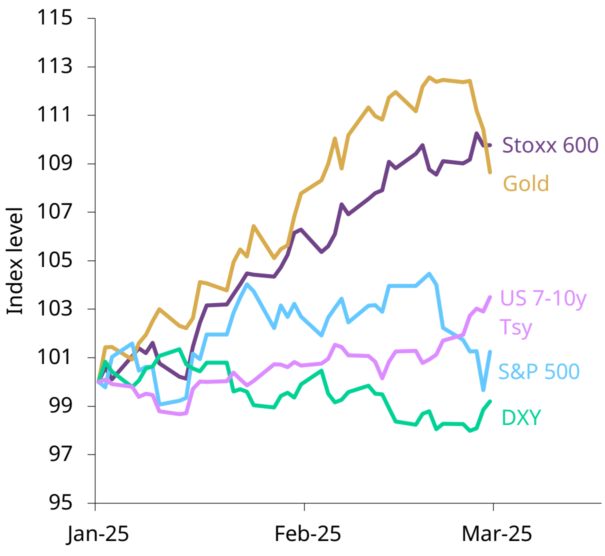
*As of 28 February 2025. Based on the LBMA Gold Price PM in USD, expressed in local currencies, except for India and China where the MCX Gold Price PM and Shanghai Gold Benchmark PM are used, respectively.
Source: Bloomberg, World Gold Council

Reassessing risk and reward

- The "Trump trade" – stronger dollar and US stocks – has taken a back seat amidst concerns about tariffs and hawkish foreign policies, conditions that will likely remain
- As governments look to increase military spending, budgets deficits are likely to increase and credit ratings to fall
- At the same time, despite inflationary pressures, markets expect a more dovish Fed, pricing in at least two full rate cuts by the end of the year
- These factors combined are creating a particularly supportive environment for gold.

Chart 2: Gold has outperformed as Trump trade fades

Y-t-d performance of key asset classes*



*Data to 28 February 2025. US 7-10y Treasury uses ICE BofA 7-10 Year US Treasury Index.
Source: Bloomberg, World Gold Council

Risk-off in, risk-on out

The "Trump trade" – which hinged on the pro-US growth agenda of the new administration and fuelled a dollar and stock rally post US election – appears to have faded.

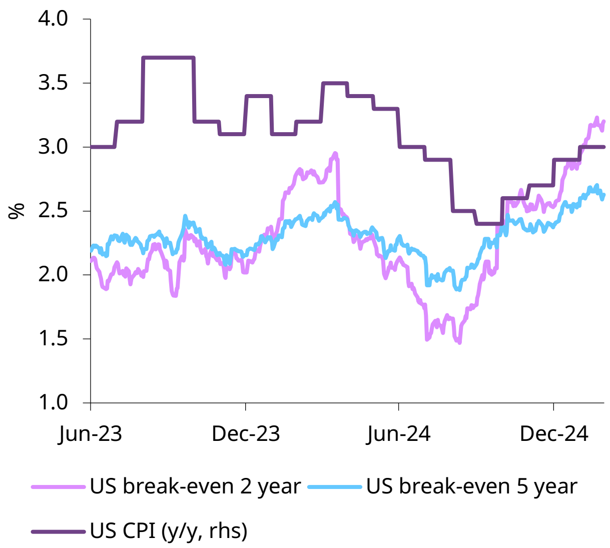
While European stocks continue to do well, the major beneficiaries have been risk-off assets such as US Treasuries and gold (**Chart 2**).

Inflation is bubbling up

Trump's campaign agenda hinged on a few key items, including: tariffs, immigration and tax cuts[2] – all of which have the potential to flare up inflation (**Chart 3**).

Chart 3: Inflation expectations have been rising

US CPI and two and five year break-even inflation*



*Data to 28 February 2025.
Source: Bloomberg, World Gold Council

2. Here's what Trump has promised to do in a second term, CNN, Updated January 2025

However, assessing the economic impact of **tariffs** is not straightforward: while they might be inflationary in a very strong economy, they could lower spending in a weaker one.[3] And there are already signs that consumer sentiment in the US is beginning to falter: the University of Michigan consumer and expectation surveys are at their lowest level since 2023.[4]

Lower levels of **immigration** (and higher deportations) will likely lead to higher labour costs, although the strength of the labour market is key to determine its full effect. Nominal wages in the US are currently plateauing while potential large-scale Federal layoffs could increase labour supply. However, those workers are unlikely to fill the spaces left by immigration.

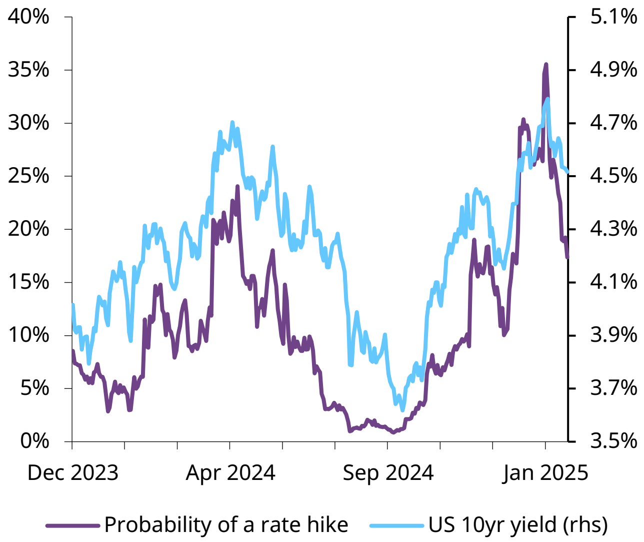
Tax cuts for businesses and the wealthy will boost growth and inflation. However, any anticipated boost from tax cuts has yet to materialise as they may take 'months to negotiate'.[5]

Uncertainty, uncertainty, uncertainty

Investor nervousness has pushed bond prices higher and yields lower. Market participants now expect two full rate cuts by the end of the year…a far more dovish read from mid-January, pre-Trump inauguration. And the probability of a Fed hike appears to have peaked (**Chart 4**).

Chart 4: Fewer rate cuts expected by the market

Probability of a Fed rate hike and US 10-year yield*



*Data to 30 January 2025. Probability that the average quarterly SOFR in 12 months' time will be above the FOMC's target range. For more information, please see: the Federal Reserve Bank of Atlanta's Market Probability Tracker.
Source: Atlanta Fed, Bloomberg, World Gold Council

While January inflation data generally runs hot, policymakers at the Fed seem content with the progress that has been made so far. At the same time, elevated uncertainty was heavily cited in the last meeting minutes, whether through tariffs, immigration or domestic policy, such as potential large-scale Federal layoffs, a nod to the Fed's dual mandate of price stability and full employment.

What's more, US Treasury Secretary Bessent's comments that they are focused on bringing down the 10-year yield has also served to ease conditions somewhat.[6]

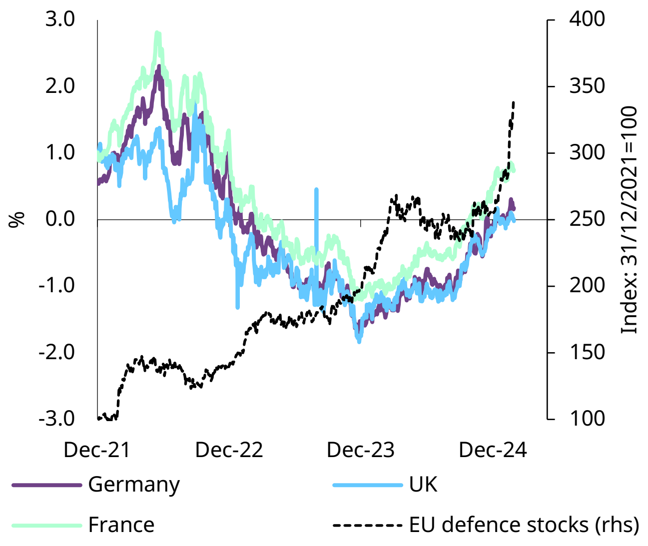
New world (dis)order?

Negotiations to end the Russia-Ukraine war have led to much handwringing and consternation, particularly across Europe during February. This has compounded already elevated geopolitical uncertainty as positive outcomes are by no means guaranteed and existing political alliances are being questioned.

Speculation that Europe will need to ramp up defence spending going forward – resulting in larger deficits – has already pushed up borrowing costs. Yield curves on European sovereign debt have become increasingly steep; short-term rates are falling while long-term rates remain high as expectations grow for an increased supply of long-dated debt (**Chart 5**).[7]

Chart 5: Higher deficits lead to higher borrowing costs

3-month/10-year bond yield spread on sovereign debt and European defence stocks*



*Data to 28 February 2025. EU defence stocks index based on the equal-weighted performance of Rheinmetall, Thales, BAE Systems, Leonardo, Dassault, Airbus, Saab.
Source: Bloomberg, World Gold Council

3. Tariffs are coming: How trade dynamics will shape aggregate demand and inflation, Centre for Economic Policy Research, January 2025
4. University of Michigan Survey of Consumers, February 2025
5. Trump Backs $4.5 Trillion Tax Cut in House GOP Budget Plan, Bloomberg, February 2025
6. Bessent Says Trump Wants Lower 10-Year Yields, Not Fed Cuts, Bloomberg, February 2025
7. Bond investors brace for Europe's defence spending 'bazooka', Financial Times, February 2025

Chart 6: Weak technicals could temporarily challenge strong fundamentals

Intra-day movements of gold spot price and technical indicators*

*As of 28 February 2025. Includes relative strength indicator.
Source: Bloomberg, World Gold Council

The UK has already committed to increase defence funding,[8] and Germany's future chancellor, Friedrich Merz, has begun discussions on the topic.[9] For the latter, this could be further complicated by the potential need to rely on the support of fringe parties after a somewhat mixed election outcome.[10] The performance of the European defence sector, one of the best this year, is reflecting the likely continuation of this trend.

Should a resolution to the Russia-Ukraine war be found – and importantly, this will need to be one agreeable to all parties – this could dampen any geopolitical risk premium in gold. But it remains to be seen whether real progress can be made and, if so, what the implications will be. Until then, it is likely that gold will remain well supported.

Perfect conditions for gold?

Uncertainty appears to be the undertone across markets. Concerns over tariffs, and the wide-ranging impact they could have on global growth, continue to cast a cloud and question US exceptionalism. This has added to already rising geopolitical risk. Recent events have highlighted the need for greater military spending, which will likely result in even higher deficits.

There are several factors that could reinstate the thorny problem of higher inflation, especially at a time when deteriorating economic conditions may necessitate interest rates staying low. The US economy is likely in 'stagflation' and consumers appear to see it that way.[11]

Historically, each of these drivers has individually been positive for gold. A move up in the GPR index of 100 points is typically linked to a 2.5% increase in the price of gold, all else equal. Similarly, a rise in 10-year break-even inflation expectations of 50bps is typically associated with an approx. 4% rise in gold prices. And a 50bps fall in 10-year Treasury rates over the long-run has been associated with a 2.5% rise in gold.[12,13]

Although these drivers seldom occur simultaneously, **their combined effect can create an environment in which gold can continue to perform positively**.

It is worth noting, nonetheless, that a solid fundamental case for gold still must scale the hurdle of a temporary technical stretched price. A retracement may create short-term headwinds but could also provide a welcome respite for uninitiated investors, as well as for consumer gold demand (Chart 6). In all, we expect gold to remain in the limelight given the current market conditions.

8. UK to raise defence spending to 2.5% of GDP by 2027, Financial Times, February 2025
9. Germany Discussing €200 Billion for Emergency Defense Fund, Bloomberg, February 2025
10. "While the CDU & SPD secured enough seats to form a two-party grand coalition relatively swiftly, yesterday's results were not as bullish as we initially hoped for." Vanda FICC Tactical Strategy, February 2025.
11. The University of Michigan consumer survey has seen a large uptick in inflation expectations for next year as well as expectations for unemployment to rise, both signalling the fear of stagflation taking hold.
12. We estimate these sensitivities using the coefficients in our GRAM model across three different estimation windows: 17, 10 and 5 years.
13. While analysis based on a shorter window suggests that the effect may be lower – possibly closer to a 0.5% – as discussed in our January Gold Market Commentary – our contention is that gold's stronger link to rates will be reestablished in a substantial falling rate environment.

World Gold Council

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We drive industry progress, shaping policy and setting the standards for a perpetual and sustainable gold market.

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