WORLD GOLD COUNCIL

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Gold Market Commentary
Stubborn stagflation

Gold closing in on new highs

A strong rally into month-end saw gold reach US$3,429/oz (+4%), and as of the end of August, gold was up 31% for the year. Gold gained in all major currencies, despite a much weaker US dollar **(Table 1, p2)**. And the positive momentum has carried on in early September.

Our Gold Return Attribution Model (GRAM) suggests major contributors to August price performance were a drop in the US dollar early in the month, continued geopolitical tensions, and strong global gold ETF flows (**Chart 1**). More recently, a higher chance of a September rate cut has also played a role.

Gold ETF flows provided plenty of support, especially late in the month, posting US$5.5bn (53t) of inflows, dominated by North America (US$4.1bn) and Europe (US$1.9bn), while Asia and other regions saw outflows. COMEX managed money net longs saw more restrained inflows of US$2bn (+16t).

Highlights

August review
Gold rallied into month-end on a US dollar reversal, geopolitical tensions and strong ETF inflows.

Looking forward
US stagflationary forces and the prospect of lower rates, alongside policy risk, could dominate prices as emerging market demand takes a breather.

Chart 1: A US dollar reversal, broad gold ETF gains and Trump-Fed tensions helped drive gold close to ATH in August

Key drivers of gold's return by month

*Data to 31 August 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. The 'residual' represents the percentage change in the gold price that is not explained by factors already included. Results shown here are based on analysis covering a five-year estimation period using monthly data. Alternative estimation periods and data frequencies are available on Goldhub.com.
Source: Bloomberg, World Gold Council

Table 1: Gold posted solid gains across all major currencies in August

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)
August price*	3,429	2,934	16,212	2,539	4,712	2,745	101,967	782	141,091	5,243
August return*	3.9%	1.6%	1.4%	1.8%	3.1%	2.4%	4.0%	2.0%	5.4%	2.2%
Y-t-d return*	31.4%	16.4%	22.8%	21.8%	25.5%	15.9%	34.3%	26.9%	52.9%	24.3%
Record high price*	3,435	3,006	16,079	2,575	4,743	2,812	100,130	830	138,096	5,393
Record high date*	13-Jun-25	22-Apr-25	23-Jul-25	22-Apr-25	22-Apr-25	22-Apr-25	23-Jul-25	22-Apr-25	23-Jul-25	22-Apr-25

*As of 31 August 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

Stubborn stagflation

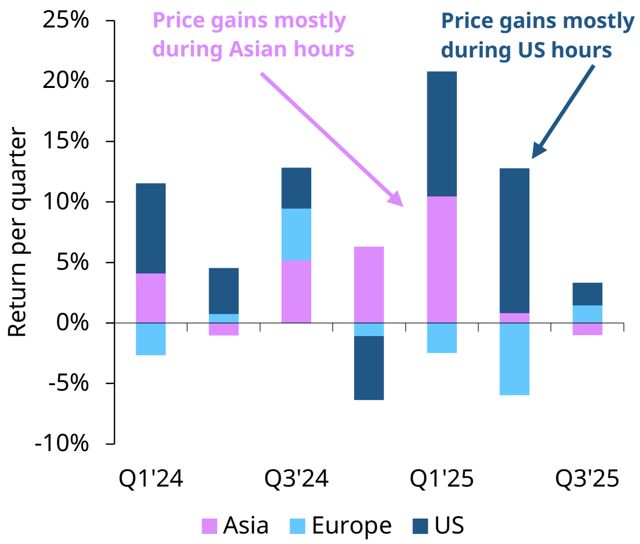
- US real rates may become more influential for gold in the near term as US investors grab the baton from emerging markets, and that influence could increase if rates were to fall
- So far rates have been sticky, but that is more reflective of a growing unease about stagflation
- Our quantitative analysis of various US investor types suggests that stagflation is of greatest concern to ETF investors, followed by retail bar and coin buyers. Fast money futures investors are more concerned with rate trajectory.

Passing the baton

The relationship between the price of gold and its core drivers shifts over time, sometimes reflecting who is most active in the market.

Chart 2: US investors grabbing the baton

Quarterly spot gold returns per intraday trading session



*Data as of 28 August 2025. Based on 10-minute mid price bars for XAU spot price in US$/oz. UTC timezone. Asia = 00:00 to 08:50, Europe=09:00 to 13:50, US=14:00 to 23:50
Source: LSEG, World Gold Council

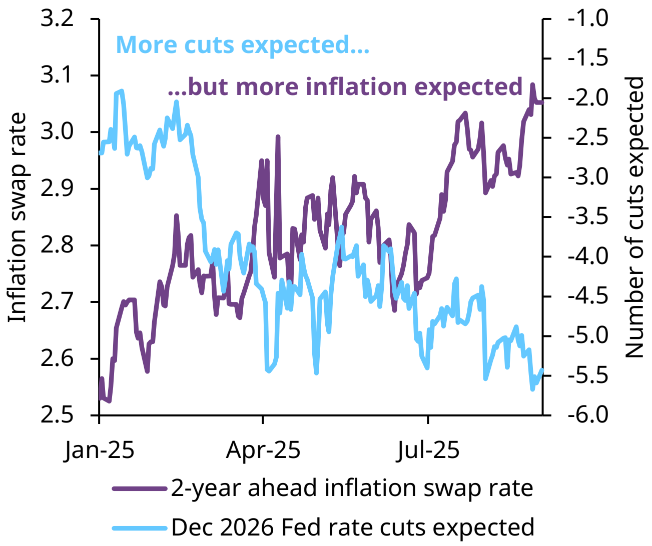
For example, US real interest rates (opportunity cost) were tightly linked to movements in gold between 2007 and 2022. Last month we suggested that one reason for gold's decoupling from rates post 2022 was the preponderance of emerging market demand from central banks and other investors, rather than a breakdown in US investor relationship with rates.

Now that central banks and Asian investors have stepped back a bit, as indicated by our Gold Demand Trends data, local premia and intraday session returns (**Chart 2**), a tighter gold-rates relationship could re-establish itself and Western investors (particularly the US) could become more dominant in driving short-term returns.

Should rates across the curve start to drop, a ramp up in gold buying could be triggered in the US. But we're not seeing that quite yet. In fact, the curve is steepening as the short end drops on Fed cut hopes, but the long end remains high on risk premia and future inflation concerns (**Chart 3**).

Chart 3: Between a rock and a hard place

Fed rate cut expectations and US inflation expectations



*Data as of 31 August 2025. Fed rate cuts based on Fed Funds futures curve
Source: Bloomberg, World Gold Council

The sticky long end might hinder some rates-driven interest in gold. However, a rise in inflation that is concurrent with a slowdown in economic activity[1] and weakening labour markets, signals we are increasingly flirting with a stagflationary environment. And this tends to favour gold. But which investors are most sensitive to such an environment?

What's your flavour?

Our analysis suggests that ETF investors are the most sensitive to expectations of stagflation – statistically, significantly so (**Chart 4**). Bar and coin investors are next, although the average response is not statistically significant. On COMEX, non-reportable investors – who are said to be more representative of retail flows – have also responded positively, on average. But 'fast money' investors, many of whom are Commodity Trading Advisors (CTAs) appear less enamoured by stagflationary fears.

This is possibly because they are more focused on interest rates – as we surmised last month. And, for CTAs, technical factors arguably play a role too. In other words, stagflation threatens higher rates, not lower as we are seeing at the moment, and fast money investors are perhaps less willing to participate until those start to soften.

In summary

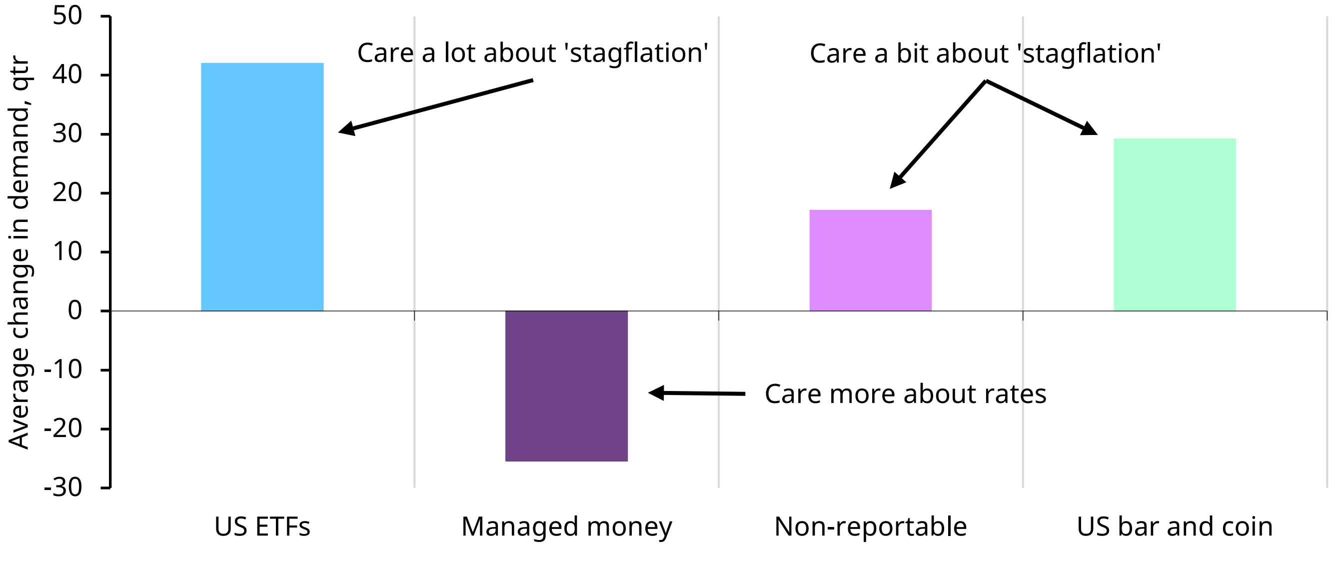
Gold's sensitivity to US real interest rates may increase as Western investors, particularly in the US, take a more active role amid softer demand from emerging markets.

While rates in the long end remain sticky, this reflects growing stagflation concerns – an environment that has historically supported gold. Among US investor segments, ETF holders show the strongest response to stagflation risks and have picked up their pace of investment over the last few weeks, not just in the US but in Europe too – where real rates are still rising – suggesting risk drivers are offsetting rates-based drivers.

Futures traders appear more focused on rate dynamics. As the yield curve steepens (driven by lower front-end rates) and inflation fears persist, the interplay between macroeconomic signals and investor behaviour will be key in shaping gold's next move.

Chart 4: What's your flavour? Investors' estimated sensitivity to stagflationary pressure

Demand response during quarters when expected stagflation is high



*Data from Q1 2000 to Q2 2025. Sensitivity to expected stagflation measured as quarterly historical change during stagflationary quarters, weighted by magnitude of stagflation signal. Stagflation defined as Q2 ahead y/y GDP growth expectation less Q1 ahead y/y GDP growth expectation falling and Q2 ahead y/y CPI expectation less Q1 ahead CPI expectation rising. Demand measured in tonnes. Weighted sensitivity based on square root of (squared change in growth + squared change in inflation).
Source: Bloomberg, World Gold Council

1. US goods trade deficit widens sharply in July | Reuters

World Gold Council

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