FICC & MACRO RESEARCH

Gold

Initiating Coverage of Gold (XAU/USD) with a LONG Recommendation | 12-Month Base Case: $4,800/oz

August 17, 2026

RATING & SUMMARY

Rating	LONG	12-Mo Base-Case Target	$4,800/oz (+17.7%)
Instrument	Gold (XAU/USD spot)	**Bull-Case Target**	$5,200/oz
Spot Price (Aug 2, 2026)	$4,076.60	**Model Near-Term Bear Case**	$4,064/oz
YTD / 1-Yr Return	-6.1% / +20.9%	**5-Yr High / Low**	$5,354.80 / $1,623.60

Targets reflect the division's 12-month view incorporating the central bank demand overlay; the model bear case is the regression's one-month implied price under an adverse macro shock (see Valuation Framework).

EXECUTIVE SUMMARY

We recommend a **long gold position** with a base-case 12-month target of **$4,800/oz**, and a bull-case scenario extending toward **$5,200/oz** should macro conditions align favorably. This call is anchored on three structural drivers: (1) a likely peaking in real yields as the Federal Reserve pivots toward cuts across the remaining 2026 FOMC meetings and into 2027, lowering gold's opportunity cost; (2) sustained central bank de-dollarization, with official-sector buying averaging approximately 1,000 tonnes annually since 2022 and 89% of reserve managers expecting further accumulation per the World Gold Council's (WGC) 2026 survey; and (3) an inelastic supply base that failed to respond meaningfully to record prices in 2025, with total supply rising just 1% despite a 44% increase in the annual average gold price.

The present moment offers a constructive entry point. CFTC speculative positioning has cleared meaningfully relative to a year ago: managed money net longs stand at 119,795 contracts as of the July 28, 2026 report, down 22.2% year-over-year and well below the roughly 200,000-contract level that has historically signalled crowding. Although length has partially rebuilt from its late-April low near 89,752 contracts, it remains far from stretched. Meanwhile, the 21% correction from the January peak of $5,354.80 to $4,076.60 has reset sentiment while leaving the structural bull case intact. Our base-case target implies roughly 18% (17.7%) upside from current levels, with our regression framework supporting a near-term move above $4,280/oz on a 25bp decline in real yields combined with a 2% dollar decline (see Valuation Framework). A more ambitious bull-case outcome toward $5,200/oz would require sustained central bank demand and a meaningful turn lower in real yields and the dollar: favorable conditions that remain plausible but not assured.

Key Highlights

- **Structural demand shift.** Central bank buying has averaged roughly 1,000 tonnes annually since 2022, close to double the prior-decade average, with 89% of reserve managers expecting further gold accumulation per the WGC's 2026 survey, providing a price-insensitive demand floor that supports prices even during periods of dollar strength or elevated yields.
- **Favorable positioning reset.** CFTC managed money net longs of 119,795 contracts (July 28, 2026) are down 22.2% year-over-year and well below the crowding threshold, indicating this rally has been driven by physical and ETF demand rather than leveraged speculation, leaving room for fresh buying to enter without the overhang of a crowded trade.
- **Inelastic supply.** Despite a 44% rise in the annual average gold price in 2025, total supply grew just 1% to 5,002.3 tonnes, with mine production up only 0.6% to 3,671.6 tonnes, reflecting long permitting timelines, declining ore grades, and the absence of major discoveries. This removes a classic source of downside pressure and reinforces the price impact of any demand upside.
- **Attractive risk-reward entry.** Gold has corrected 21% from its January 29, 2026 peak of $5,354.80 to $4,076.60, a healthy reset within a structural bull market. The 20.9% year-over-year gain confirms the underlying trend remains intact, suggesting the current pullback represents an opportunity to enter at a more favorable valuation.

MARKET OVERVIEW

Gold remains one of the strongest-performing major commodities, supported by central bank demand, investor flows, geopolitical uncertainty, and shifting expectations around U.S. monetary policy. Unlike industrial commodities, gold is driven less by consumption trends and more by macro variables such as real yields, the dollar, liquidity conditions, and safe-haven demand, so changes in Federal Reserve expectations and global risk sentiment have an outsized impact on price action.

The market entered 2026 following an exceptionally strong 2025. According to the World Gold Council, total gold demand including OTC activity exceeded 5,000 tonnes for the first time, while the value of demand reached approximately US$555 billion. Investment demand was a key contributor, with global gold ETF holdings increasing by roughly 801 tonnes and bar and coin demand reaching its strongest level in more than a decade.

Rates, Real Yields, and the Dollar

Rates and the U.S. dollar remain the primary tactical macro drivers of gold. Because bullion does not generate income, higher real yields increase the opportunity cost of holding gold relative to U.S. Treasuries and other fixed-income assets. A higher-for-longer Federal Reserve stance therefore represents a headwind, while declining rate expectations and lower real yields would improve gold's relative attractiveness. Gold also generally trades inversely to the U.S. Dollar Index (DXY), as a stronger dollar raises the effective cost of gold for non-U.S. buyers. Rate differentials reinforce this relationship: relatively high U.S. yields can attract capital into dollar-denominated assets, strengthening the DXY while reducing the appeal of non-yielding gold. Conversely, a more accommodative Fed stance could support gold through both lower real yields and a softer dollar. Dollar weakness was an important contributor to gold's strong 2025 performance, and the DXY and U.S. rate expectations should be monitored together when forecasting the metal.

Central Bank and Institutional Demand

Central bank and institutional demand continue to provide significant structural support. Central banks have purchased approximately 1,000 tonnes of gold per year on average in recent years, well above longer-term historical levels, reflecting a broad trend toward reserve diversification among countries seeking to cut concentration in dollar assets and build resilience to geopolitical, sanctions, and financial-system risks. In the WGC's 2026 reserve manager survey, 89% of respondents expected global central bank gold reserves to increase over the following year, and 45% expected their own institution's reserves to grow. Institutional participation through ETFs, futures, and other gold-linked products has also strengthened; these flows respond quickly to shifts in policy expectations and can amplify price moves. Full tonnage detail on the official-sector bid is covered in the Fundamental and Positioning Analysis section.

Physical Demand and the Competitive Landscape

Physical demand remains important but increasingly price sensitive. Jewellery consumption weakened to its lowest volume in five years as record prices reduced affordability, particularly in China and India, yet jewellery spending reached a record US$172 billion, suggesting underlying demand has adjusted rather than disappeared. Technology demand is smaller and relatively stable at 322.8 tonnes in 2025, of which about 270 tonnes came from electronics, with AI infrastructure and high-performance computing a potential source of incremental demand. Within the broader asset landscape, gold competes with silver (its closest substitute, though far more industrially exposed and volatile), platinum and palladium (more tied to automotive catalysts), and financial assets such as Treasuries, TIPS, cash, and cryptocurrencies. Gold's advantages are its lack of direct issuer or credit risk, deep liquidity, central bank acceptance, and long-established defensive role combining investment, monetary, jewellery, and industrial uses in one instrument.

Near-Term Outlook

The near-term outlook depends on the interaction between real yields, the dollar, investment flows, and risk sentiment. The upside scenario involves weaker growth, lower Fed rate expectations, declining real yields, a softer dollar, stronger inflows, or renewed geopolitical stress; strong U.S. growth, persistently elevated real yields, a firmer dollar, and reduced safe-haven demand are the primary downside risks. Overall, gold remains structurally supported by central bank and investment demand, although elevated prices leave the market increasingly sensitive to shifts in policy expectations, positioning, and risk sentiment.

MARKET HIGHLIGHTS

Gold closed at **$4,076.60/oz** as of August 2, 2026, down 6.1% year-to-date after pulling back from its five-year high of $5,354.80 reached on January 29, 2026. Despite the correction, the metal remains up 20.9% year-over-year and has more than doubled over the past five years (+124.0%), measured from a base of $1,819.80 in August 2021. The five-year low of $1,623.60, set in September 2022, underscores the magnitude of the structural bull market that has defined gold over this period. On shorter timeframes, the one-month return of -1.2% and three-month return of -12.2% reflect a market still digesting the sharp reversal from the January peak.

Figure 1. Gold spot price, August 2021 to August 2026. Source: S&P Capital IQ, COMEX.

Metric	Current	1 Year Ago	YoY Change
Gold Price (US$/oz)	4,076.60	3,373.20	+20.9%
Global Gold ETF Holdings (tonnes)	4,047	3,692	+9.6%
CFTC Open Interest (contracts)	384,603	449,647	-14.5%
Managed Money Net Position (contracts)	119,795	153,987	-22.2%

Table 1. Key metrics snapshot. Sources: World Gold Council, CFTC (July 28, 2026 report vs. August 5, 2025 archive), S&P Capital IQ.

Speculative Positioning

Speculative positioning has eased meaningfully relative to a year ago. CFTC total open interest declined 14.5% year-over-year to 384,603 contracts, while managed money net longs fell 22.2% to 119,795 contracts. The most recent weekly data (July 28, 2026) showed managed money longs at 135,093 contracts against shorts of 15,298, with a week-over-week net change of -5,036 contracts, indicating continued de-risking into late July. This positioning unwind is notable given that the gold price has held up relatively well year-over-year, suggesting the rally is increasingly supported by factors beyond leveraged speculation.

CFTC Disaggregated COT, COMEX Gold	Position (Contracts)	WoW Change
Open Interest	384,603	+1,235
Managed Money Long	135,093	-6,394
Managed Money Short	15,298	-1,358
Managed Money Net	**119,795**	**-5,036**
Swap Dealer Long / Short	23,661 / 215,421	-1,298 / -3,416

Producer/Merchant Long / Short	15,367 / 35,916	-194 / +1,034

Table 2. Commitments of Traders, report date July 28, 2026 (changes vs. July 21, 2026). Source: CFTC.

ETF Flows and Exchange Inventory

Investment demand through ETFs remains structurally positive on a year-over-year basis. Global gold ETF holdings rose 9.6% to 4,047 tonnes from 3,692 tonnes a year ago, representing continued accumulation despite near-term volatility. However, June 2026 data shows a more cautious near-term picture: net outflows of 74 tonnes during the month brought total AUM to US$526 billion, while the first-half net flow of +18 tonnes indicates cumulative buying has remained positive year-to-date even as monthly flows have turned uneven. Physical supply conditions on the COMEX appear stable: total warehouse inventory stands at 27.03 million troy ounces (14.51 million registered, 12.52 million eligible), yielding a deliverable share of 53.7% that does not suggest acute delivery stress at current open interest levels.

Cross-Asset Context

Gold has underperformed most related commodities year-to-date. Energy benchmarks have seen the largest gains, with WTI crude up 36.7% to $79.62/bbl and Brent up 36.0% to $83.82/bbl, while copper has gained 13.9% to $6.47/lb on its distinct industrial demand profile. Silver, at $58.26/oz, has declined 17.5% year-to-date, tracking gold's correction with amplified volatility consistent with its higher beta. On the macro side, the DXY has edged up 1.8% to 99.72 and the U.S. 10-year real yield has risen 58 basis points year-over-year to 2.41%, both reinforcing the historically inverse relationship these variables share with gold and contributing to the headwinds facing the metal in 2026. Overall, the market is in a consolidation phase following the January blow-off: speculative positioning has cleared significantly, ETF demand provides a year-over-year floor, and physical inventory levels remain orderly. The key tension in the data is between strong year-over-year price performance and deteriorating near-term momentum, with rising real yields and a firmer dollar presenting ongoing headwinds.

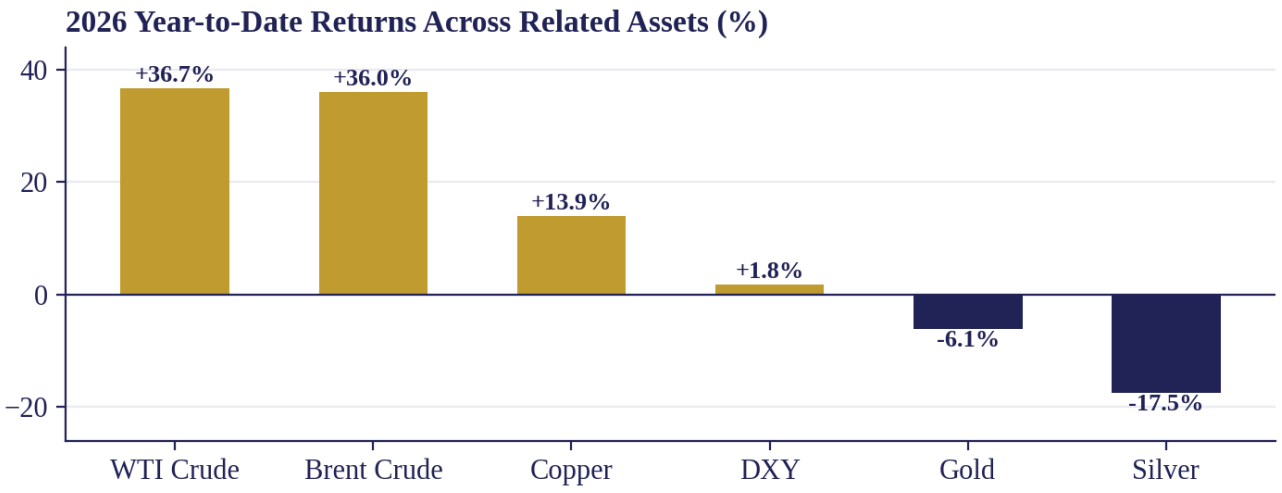

Figure 2. 2026 year-to-date returns across related assets. Source: S&P Capital IQ.

INVESTMENT THESES

The long gold recommendation rests on three theses, each tied to a different driver of the price: the rates and dollar channel, the structural central bank demand channel, and the supply and positioning channel. They are meant to be tracked separately. A problem with one does not necessarily undermine the others, and each carries its own explicit break condition below.

Thesis 1: Real Yields Peak, Lowering Gold's Opportunity Cost

Framing. Gold pays no yield, so its relative attractiveness is a direct function of the real interest rate and the dollar. As the Fed pivots toward cuts across the remaining 2026 FOMC meetings (Sep 15-16, Oct 27-28, Dec 8-9) and into 2027, we expect real yields to grind lower, reducing gold's opportunity cost against Treasuries and other yielding assets. This is the main macro engine behind our $4,800/oz base case, with $5,200/oz possible if the pivot is more aggressive than expected.

Evidence base. The team's regression of monthly gold returns on changes in the 10-year real yield and the dollar index (R-squared of 0.312, with the dollar the stronger driver at 31.1% standalone versus 13.9% for real yields) implies $4,283 under a 25bp real-yield cut plus a 2% dollar decline, versus $4,064 in the mirror-image bear case, off a $4,103.52 base; the full specification, diagnostics, and scenario grid are in the Valuation Framework section. The sensitivity analysis shows the dollar term now dominates: a 3% dollar move is worth roughly $155 to $156 of implied price, against only $11 to $12 for a 50bp real-yield move. The Market Overview separately confirms that lower real yields and dollar weakness were key contributors to 2025's rally. The relationship is not perfectly stable, though: the rolling correlation between gold and real yields swings between roughly -0.7 and slightly positive over the sample window, and the regression's modest R-squared is itself read as evidence that a factor outside it, most plausibly central bank demand (Thesis 2), is doing real work too.

Falsifiability test. A hawkish Fed hold plus a sustained rise in the 10-year TIPS yield, which is the cleanest falsifiability test of the thesis. Durable dollar strength on its own is a secondary warning sign even without a hawkish Fed, since the dollar coefficient dominates the regression.

Thesis 2: Central Bank Buying Is a Structural, Price-Insensitive Demand Floor

Framing. Since 2022, central banks have replaced Western ETF flows as gold's marginal buyer, driven by de-dollarization, sanctions risk, and reserve diversification rather than by price. Unlike jewellery or investment demand, this floor does not shrink when gold gets expensive, which is what makes it structural rather than cyclical.

Evidence base. Central banks bought 863.3 tonnes in 2025 and have averaged roughly 1,000 tonnes per year since 2022, close to double the prior decade's pace; 89% of reserve managers in the WGC's 2026 survey expect further global accumulation, and 45% expect their own reserves to grow. The bid held up into 2026: Q2 central bank buying rebounded to 288.9 tonnes, back to levels typical of the past four years, even as investment demand (ETFs plus bar and coin) fell 46% year-over-year to 262.2 tonnes on a 44.8-tonne ETF outflow. The two demand pillars have effectively swapped roles, with official buying now the steadier of the two. Structurally this matters because gold is not consumed: the roughly 5,000 tonnes traded annually is small against the roughly 215,000 tonnes already above ground, so price is set by demand to hold gold, which is exactly the channel central bank buying works through.

Falsifiability test. Central banks turning forced sellers to fund energy imports or defend currencies, rather than voluntary diversifiers. That is what Türkiye did in early 2026, selling an estimated 58 to 60 tonnes (roughly $8 billion) within about two weeks after the Iran-driven oil shock, having first drawn down Treasury holdings (a figure pending verification against WGC and IMF data). If that playbook spreads to other EM energy importers and net official-sector flows turn negative for two consecutive quarters, tracked via monthly IMF and PBoC updates and quarterly WGC reports, the thesis breaks.

Thesis 3: Inelastic Supply and Uncrowded Positioning Skew the Trade to the Upside

Framing. Supply has not responded meaningfully to record prices, and speculative futures positioning remains well short of past crowding levels despite the rally. Together this means fresh demand is more likely to move price than be

absorbed by new supply, and the risk of a speculative long-liquidation shock, a classic way past gold corrections have unwound, currently looks limited.

Evidence base. 2025 total supply grew just 1% to 5,002.3 tonnes, the highest in the WGC's series since 1970, despite a sharp price rise. Mine production grew under 1%, in line with a sub-1% annual average over the past decade, which the WGC attributes to permitting timelines, declining ore grades, and few new discoveries. The elastic parts of supply were equally unresponsive: recycling rose only 3% and the industry hedge book fell to its lowest since 2013, as producers kept full price exposure rather than locking in gains. Spot gold trades at more than 2.5 times the roughly $1,572/oz production-weighted average AISC, so there is no near-term cost-driven supply cut, though it also means the cost floor is a distant backstop rather than a near-term support level. On positioning, managed money net length sits at 119,795 contracts as of the July 28, 2026 COT report, well below the roughly 196,000 to 200,000-contract crowding threshold and far below the 273,076 record set in July 2016. Even at record prices in early 2026, speculative length never approached that peak, and the futures curve remains in normal contango rather than backwardation, consistent with an orderly, physically-led market rather than a squeeze.

Falsifiability test. A genuine supply response, such as mine output or recycling accelerating well above the historical 1% to 3% pace as high-cost producers add capacity, or managed money length pushing through the 200,000-contract crowding threshold while price stalls, would each signal the setup has changed.

Supply

Gold supply proved strikingly unresponsive to record prices in 2025, and that inelasticity is a key support for the price. Despite a 44% rise in the annual average US dollar gold price (roughly 64% measured year-end over year-end), total supply grew just 1% to 5,002.3 tonnes, the highest in the World Gold Council's series dating back to 1970. Mine production grew less than 1% in 2025, in line with an average of under 1% a year over the past decade, and the WGC expects output to stay hard to grow given long permitting timelines, declining ore grades, and few major discoveries.

Tonnes	2024	2025	y/y
Mine production	3,650.4	3,671.6	+1%
Net producer hedging	(53.8)	(73.6)	n/m
Recycled gold	1,365.3	1,404.3	+3%
Total supply	**4,961.9**	**5,002.3**	**+1%**

Table 3. Gold supply, 2024 vs. 2025. Source: World Gold Council, Gold Demand Trends Full Year 2025.

Where production moved in 2025 it moved for project-specific reasons and was repeatedly offset by disruption, with gains in Ghana (+24%), Canada and Australia (each roughly +15%), and Chile (+13%) partly cancelled by operational shocks in Indonesia, Argentina, Mexico, and Mali. The elastic parts of supply behaved the same way. Recycling rose only 3% despite the price surge, as holders in emerging markets pledged jewellery as loan collateral rather than selling outright, and the industry hedge book fell to roughly 120 tonnes, the lowest since 2013, with producers deliberately keeping full price exposure. Output is near a record but barely growing, the elastic components are contracting rather than expanding, and for an asset priced at the margin by demand, a supply base this inelastic removes a classic source of downside pressure.

Demand

Demand sets the gold price, and in 2025 the mix inverted in a way that strengthens the bull case. Total demand (including over-the-counter) topped 5,000 tonnes for the first time on record, and with the price setting 53 all-time highs, the value of that demand reached an unprecedented US$555 billion, up 45% year over year. The shift underneath the total is what matters: price-sensitive jewellery gave way to price-insensitive investment and central bank buying.

Tonnes	2024	2025	y/y
Jewellery fabrication	2,026.6	1,638.0	-19%
Technology	326.2	322.8	-1%
Investment	1,185.4	2,175.3	+84%
Central banks and other	1,092.4	863.3	-21%
OTC and other	331.3	2.9	n/m
Total demand (incl. OTC)	**4,961.9**	**5,002.3**	**+1%**

Table 4. Gold demand, 2024 vs. 2025. Source: World Gold Council, Gold Demand Trends Full Year 2025.

Investment was the engine of the year, nearly doubling to 2,175.3 tonnes and reaching roughly 44% of total demand, up from around a quarter the year before, as ETFs flipped from a small 2024 outflow to inflows of 801.2 tonnes and bar and coin demand hit a 12-year high. This is the discretionary, sentiment-driven part of demand, and it is also the most reversible. Central banks bought 863.3 tonnes, well above the pre-2022 average of 400 to 500 tonnes though below the 1,000-plus tonnes of the prior three years; this buying is largely price-insensitive and provides a structural floor that does not flex with the price. Jewellery fell 19% in volume, but on a value basis jewellery spending actually rose 18% to a record US$172 billion. The reason the rotation matters is structural: gold is not consumed, and the roughly 5,000 tonnes traded each year is tiny against the roughly 215,000 tonnes already above ground, so the price is driven by demand to hold gold as an asset rather than by mine supply.

The most recent quarter refines this picture and is worth noting for direction. In Q2 2026, investment fell sharply to 262.2 tonnes, down 46% year over year, dragged by an ETF outflow of 44.8 tonnes as prices softened and rate expectations firmed. Central banks moved the opposite way, rebounding to 288.9 tonnes after a downward-revised Q1, returning to the strong levels typical of the past four years. In other words, the two pillars have partly swapped roles into 2026, with the official-sector bid looking more resilient than feared and investment emerging as the softer, swing component.

For most commodities the supply-demand balance produces a clean surplus or deficit that predicts price, but gold is different: the balance nets to zero because the WGC uses an over-the-counter and stock-flows line to reconcile the two sides, and that residual is where much of the real action sits. In 2025, measured demand across jewellery, technology, investment, and central banks rose 8% to 4,999.4 tonnes, but the OTC and stock-flows line collapsed from 331.3 tonnes to just 2.9 tonnes, holding total demand flat. The lesson is not to read a small surplus or deficit as directional; for gold, the swing factors are investment and unmeasured OTC flows, not a physical shortfall.

Cost Curve and Price Floor

The cost curve sets a rough floor beneath the price by identifying where the highest-cost production becomes uneconomic. Industry all-in sustaining costs sit at approximately $1,500 to $1,650 per ounce on an industry-average basis as of 2026 (see Valuation Framework). At the company level, the curve below, built from full-year 2025 reported AISC across nine major listed producers spanning roughly 23.9 million ounces of output, runs from Agnico Eagle at the low end ($1,339/oz) to Harmony at the high end ($1,806/oz), with a production-weighted average of about $1,572/oz and a 90th-percentile cost near $1,660/oz. Industry-average AISC rose about 9% year over year through 2025 on higher sustaining capital, input costs, and royalties tied to the higher gold price.

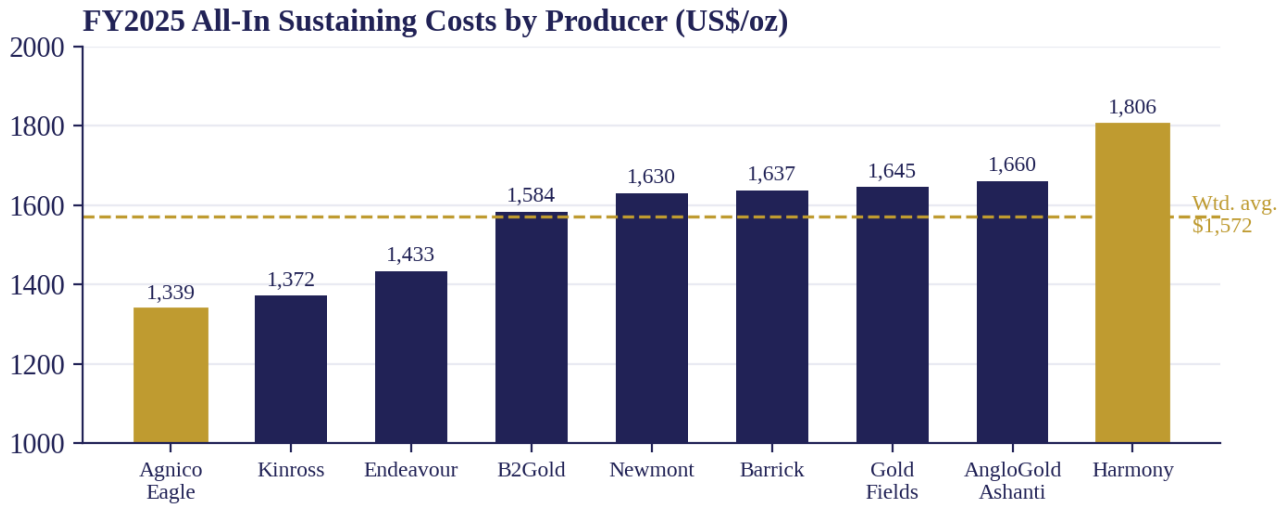

Figure 3. FY2025 all-in sustaining costs by producer. Sources: company disclosures (see Works Cited).

With spot gold near US$4,076 per ounce, the entire major-producer cost base sits far below the price, leaving even the highest-cost senior producer with a margin of roughly $2,250 per ounce and the whole curve comfortably in the money. At the production-weighted average AISC of about $1,572, gold is trading at more than two and a half times the marginal cost of production. The read is two-sided: the margin cushion is enormous, so no supply is being forced offline and producers are generating record free cash flow, but because even the high-cost tail sits near $1,800/oz, cost support is a distant backstop that would not arrest a correction until the price had fallen by more than half. The sustaining floor also sits below the incentive price required to justify new mine builds, one reason supply cannot respond quickly even at current prices.

Positioning

Positioning gauges how crowded the trade is, and the message is nuanced but supportive. As of the July 28, 2026 COT report, managed money net length in COMEX gold stood at 119,795 contracts (135,093 long against 15,298 short), in

the lower-middle of its historical range since 2006 and well below both the crowding threshold and the 273,076 record set in July 2016. Notably, the 90th percentile of the entire history is about 196,000 contracts, so the roughly 200,000 level widely cited as crowded is well grounded in the data, and current length leaves ample room before that threshold. Positioning is therefore modest, and far from stretched.

The trajectory matters as much as the level. Even as gold set its record high of $5,354.80 in January 2026, speculative length never approached its own peak, having in fact bottomed near 89,752 contracts in late April before partially rebuilding through the early summer and then easing again into late July, with the latest week showing a net decline of 5,036 contracts. That divergence, a record price without record positioning, is the clearest evidence that the rally has been led by physical central bank and over-the-counter demand rather than leveraged futures speculation, which leaves limited crowded-long risk to unwind into a correction. The futures curve reinforces an orderly market, settling progressively higher into 2027 and 2028 in a normal contango rather than the backwardation that would signal acute physical tightness.

Synthesis and Key Risks

The setup is favorable on four counts: supply is inelastic and barely growing, demand has rotated toward price-insensitive central bank and investment buyers, the price sits at more than twice the marginal cost of production, and speculative positioning is moderate and far from crowded. Together these remove several classic sources of downside pressure.

The risks deserve equal weight, and the most recent data has sharpened where they sit. The swing variable is no longer central bank buying, which slowed in 2025 but rebounded convincingly in Q2 2026, but investment demand, which was the single largest driver of 2025 yet fell 46% year over year in Q2 2026 as ETFs turned to outflow. Because investment is the most reversible bucket and the one now weakening, the durability of the bull case rests primarily on whether investor demand stabilises rather than continues to fade. Jewellery, already down 19% in volume, remains a secondary drag if prices stay elevated. On balance the fundamentals are constructive, but that view is contingent on the investment bid holding, and that is the variable to watch.

VALUATION FRAMEWORK

Gold has no cash flows, so a standard discounted cash flow approach does not apply. A cost curve floor was also considered and rejected: industry all-in sustaining costs sit at approximately $1,500 to $1,650 per ounce as of 2026, while spot gold has traded well above $4,000 for most of the year, making the cost floor uninformative for a near-term price call (the company-level curve is presented in the Fundamental and Positioning Analysis section). Instead, this section anchors on a regression of gold returns against changes in real interest rates and the U.S. dollar, with VIX, inflation break-evens, and central bank demand all treated as qualitative overlays rather than modeled variables, for the reasons discussed below.

Model Specification

The dependent variable is the monthly percentage return on gold. Predictors are expressed as changes rather than levels, to avoid spurious regression between trending series: the monthly change in the 10-year real yield (FRED DFII10) and the monthly percentage change in the U.S. dollar index. VIX and 10-year breakeven inflation (FRED T10YIE) were tested in an earlier four-variable specification and dropped; see Regression Results below. The model is estimated by OLS with Newey-West (HAC) standard errors to account for residual autocorrelation, on a 75/25 time-ordered train-test split.

The sample covers roughly 60 monthly observations from August 2021 to July 2026 (a weekly, 260-observation variant was tested first and deprioritised in favour of the monthly frequency, which better matches the longer-horizon price target conventional in commodity research). Gold is proxied using daily XAU/USD spot prices, and the dollar index using the Federal Reserve's Nominal Broad U.S. Dollar Index (DTWEXBGS) rather than the narrower ICE Dollar Index; both track their benchmarks closely and are noted for transparency. Because the sample falls almost entirely after gold's 2022 shift toward central-bank-driven demand, results describe the current regime rather than a full multi-cycle history.

Regression Results

An initial four-variable specification found VIX and breakeven inflation statistically insignificant and contributing negligible standalone explanatory power. Removing them was favoured by the information criteria and substantially improved coefficient stability, reducing the model's condition number from 381 to 76.6. The two-variable specification is used going forward.

The model explains a moderate share of monthly gold return variance (R-squared of 0.312, adjusted R-squared of 0.279; $F = 10.94$, $p < 0.001$), with the dollar predictor significant at the 95% level ($p < 0.001$). Individually, real yields and the dollar explain 13.9% and 31.1% of variance respectively; combined, the model reaches 31.2%, and the two predictors correlate at 0.61. Diagnostics support reliability: variance inflation factors are low (1.58 each) and the Durbin-Watson statistic (2.119) shows no residual autocorrelation. Out-of-sample, the model beats a naive zero-return benchmark (RMSE 0.0754 versus 0.0854, across 15 test observations), a modest but genuine improvement.

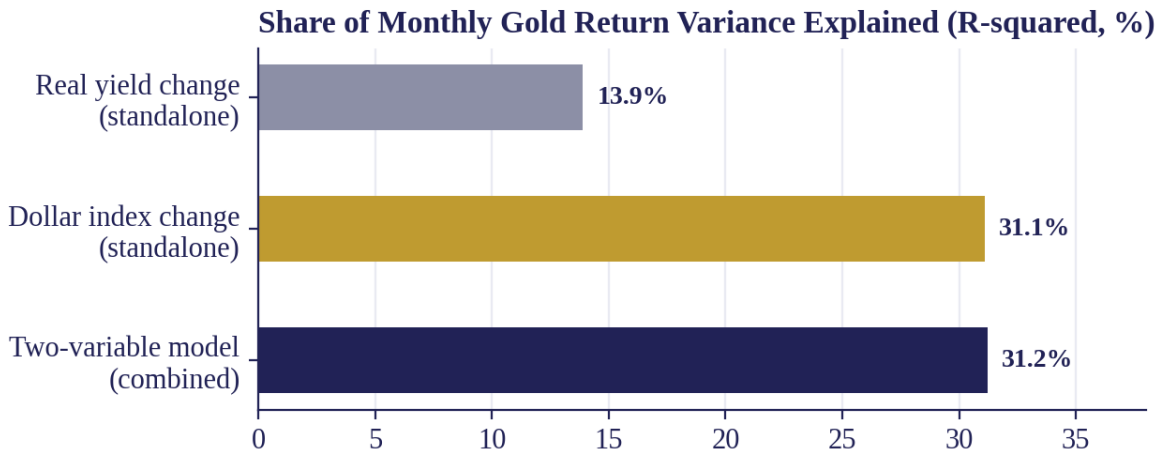

Figure 4. Standalone and combined explanatory power of the two significant predictors, team analysis.

The Decoupling Effect

The modest explanatory power of the regression is itself informative. Published research on gold's historical relationship with real yields has found a strong long-run inverse relationship: one widely cited regression of the real gold price against 10-year TIPS yields from 2004 to 2025 found that a 100 basis point rise in real yields has historically been associated with an approximately 18% decline in the inflation-adjusted gold price. Separately, other research places the historical rolling correlation between gold and real yields at approximately -0.7 to -0.8 through 2022, before partially decoupling as central bank demand replaced Western ETF flows as the marginal price driver.

The team's own rolling-correlation analysis is consistent with this account. Rather than sitting reliably negative, the rolling correlation between gold returns and real yield changes swings between roughly -0.7 and, briefly, slightly positive territory across the sample window, with no stable relationship. This instability, combined with the model's modest R-squared, supports the view that a meaningful share of gold's price action over this period is being driven by a factor not captured in a standard macro regression, most plausibly sustained central bank buying, which the team was unable to source as a clean high-frequency time series and has therefore treated as a qualitative rather than quantitative factor in this report.

Price Scenarios

The table below translates the regression into an implied price range under three scenarios, using the model's real yield and dollar coefficients (the two statistically significant drivers) against the last observed price of $4,103.52 as of July 31, 2026. The bear and bull cases apply a 25 basis point move in real yields and a 2% move in the dollar index, in opposing directions.

Scenario	Predicted Return	Implied Price	95% CI Low	95% CI High
Bear (real yields +25bp, dollar +2%)	-0.97%	$4,063.79	$4,008.60	$4,118.97
Base (no macro shift)	+1.70%	$4,173.43	$4,134.95	$4,211.92
Bull (real yields -25bp, dollar -2%)	+4.38%	$4,283.08	$4,218.23	$4,347.93

Table 5. Bear, base, and bull price scenarios derived from the regression model, team analysis.

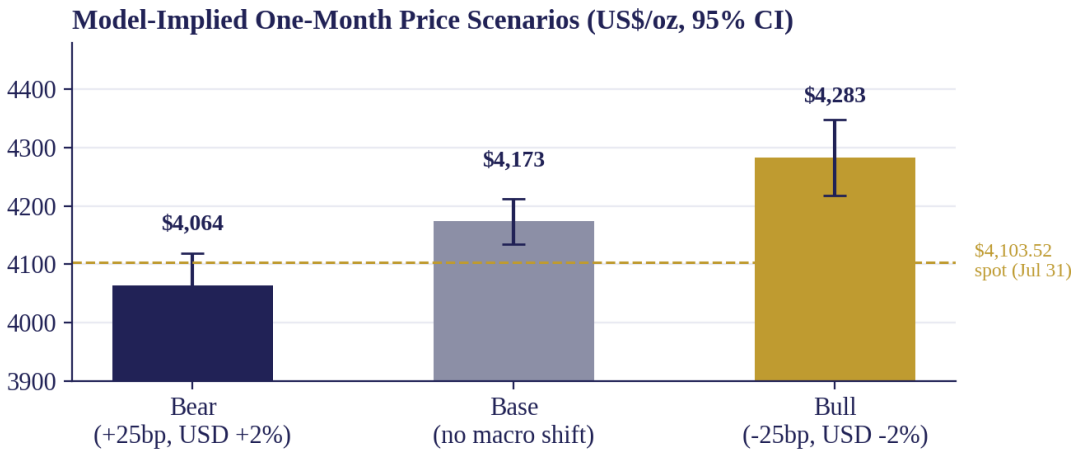

Figure 5. Model-implied one-month price scenarios with 95% confidence intervals, team analysis.

Three caveats apply. First, the model was estimated on monthly changes, so applying a larger one-time shock assumes the relationship holds at that scale, an assumption rather than a tested property. Second, the confidence intervals reflect statistical uncertainty conditional on the shock occurring as specified, not the probability of the shock itself, and are not a market-implied probability range. Third, these are one-month model-implied prices: the division's published 12-month base-case target of $4,800/oz sits deliberately above the model's $4,173 base case because it incorporates the central bank demand overlay the regression cannot capture, compounded over a 12-month horizon rather than a single monthly shock.

Sensitivity Analysis

The grid below shows how the implied price responds continuously across real yield and dollar moves, using the same two significant coefficients. Rows vary the real yield shock from -0.50 to +0.50 percentage points and columns the dollar shock from -3% to +3%, with each cell the implied price at that combination.

Real Yield \ Dollar	-3.0%	-1.5%	+0.0%	+1.5%	+3.0%
-0.50pp	$4,341	$4,263	$4,185	$4,107	$4,030
-0.25pp	$4,335	$4,257	$4,179	$4,101	$4,024
+0.00pp	$4,329	$4,251	$4,173	$4,096	$4,018
+0.25pp	$4,323	$4,245	$4,168	$4,090	$4,012
+0.50pp	$4,317	$4,239	$4,162	$4,084	$4,006

Table 6. Price sensitivity to real yield and dollar moves, team analysis.

The grid confirms the dollar term dominates: a 3% dollar move shifts the implied price by roughly $155 to $156, while a 50 basis point real yield move shifts it by only $11 to $12.

Limitations

- The model explains roughly three-tenths of monthly gold return variance; most price movement is driven by factors outside this framework, most notably central bank demand.
- The 2021 to 2026 sample window lacks a full pre-2022 comparison period, so the decoupling argument rests on external research rather than a formal statistical break test within the team's own data.
- Gold and dollar series are proxied (XAU/USD spot and DTWEXBGS respectively) rather than the exact LBMA and ICE benchmarks, due to data access constraints.
- VIX and breakeven inflation were tested and found not statistically significant; they are retained in the output for transparency but are not decision-relevant.

CATALYSTS AND RISKS

Gold's performance over the coming months will be shaped less by any single data point than by the interplay between the real-rate trajectory and a newly two-sided official sector. The catalysts below represent the scheduled and semi-scheduled events most likely to move the metal toward our price target; the risks that follow outline the conditions that would invalidate that view, with explicit thesis-breakers identified.

Catalysts

1. The Federal Reserve rate path (FOMC: Sep 15-16, Oct 27-28, Dec 8-9, 2026). The dominant driver of gold remains the trajectory of real yields, and each remaining FOMC decision this year represents a discrete catalyst. Because gold pays no coupon, a credible shift toward rate cuts lowers the opportunity cost of holding it and is typically price-supportive; a hawkish hold or a higher-for-longer message does the reverse. Market attention should focus on the statement language, the dot plot at projection meetings, and the Chair's press conference for the marginal signal rather than the decision itself.

2. Inflation and labor data. CPI is a primary input to the real-yield calculation that anchors gold valuation. Upside inflation surprises that push the market to price fewer cuts are a headwind; cooling prints that pull real yields lower are a tailwind. Note that the 2025 to 2026 lapse in government appropriations has shifted several BLS release dates; the calendar in the exhibits reflects the revised schedules.

3. Official sector flows (WGC quarterly data, monthly IMF and PBoC reserve updates). Central bank buying was the structural pillar under gold's multi-year advance, averaging close to 1,000 tonnes per year since 2022. That flow has turned two-sided in 2026, making each quarterly WGC Gold Demand Trends report and monthly reserve update a genuine catalyst in both directions: a resumption of net buying would confirm the structural bid, while continued net selling would remove it. PBoC updates are especially material given China's position as the largest reported official buyer in recent years.

4. The US dollar and rate differentials (DXY). Gold is priced in dollars and moves inversely to the greenback over most horizons. Dollar strength driven by widening rate differentials or safe-haven demand for USD is a direct headwind; dollar weakness amplifies gold's advance. The DXY therefore functions as both a catalyst and a real-time confirmation signal for the directional thesis.

5. Geopolitical and energy-shock developments (Middle East, Strait of Hormuz). The Iran conflict that escalated in late February 2026 and the associated Hormuz oil-supply risk remain live. Escalation typically produces a safe-haven bid for gold, but as the risks below detail, a severe energy shock can paradoxically pressure gold through the official-sector channel. De-escalation would remove the safe-haven premium and likely weigh on prices in the near term.

Risks (Including Thesis-Breakers)

1. Hawkish repricing and higher-for-longer. The most direct threat to a constructive view: if inflation proves sticky and the Fed signals no further easing, real yields rise and gold's opportunity cost climbs. A sustained upward move in the 10-year TIPS yield would be the confirming signal. This is the cleanest falsifiability test of the thesis.

2. Sustained US dollar strength. A dollar rally, whether from rate differentials or global risk aversion, would cap or reverse gold in dollar terms even if the domestic real-rate story remains intact. This risk is not necessarily thesis-breaking on its own, but it can meaningfully compress upside in the absence of other supportive factors.

3. Central banks liquidating gold to fund energy imports. The structural bull case rests on central banks being net, and ideally increasing, buyers of gold. An energy shock can flip them into forced sellers. Türkiye is the clearest recent example: following the February 2026 strikes on Iran and the resulting oil-price spike, the Central Bank of the Republic of Türkiye first ran down its US Treasury holdings and then sold an estimated 58 to 60 tonnes of gold (roughly $8 billion; estimate pending verification against WGC and IMF data) within approximately two weeks to raise dollars and defend the lira against a widening energy-import bill. This was not a strategic diversification away from gold; it was distress selling by a major oil importer that needed hard currency, converting the market's most reliable buyer into an involuntary seller. If the Hormuz risk broadens, other emerging-market importers may follow the same playbook,

putting stress on any assumption of a one-way official-sector bid. Net official flows turning negative for two consecutive quarters would break Thesis 2.

4. Risk-on rotation and geopolitical de-escalation. A durable Middle East de-escalation, combined with a broad rotation into risk assets, would pull safe-haven flows out of gold and remove a support that has provided quiet ballast in the current tape. This risk is more moderate than the thesis-breakers above but remains relevant to near-term price action.

Exhibit: Gold Catalyst Calendar (2026)

Date	Event	Why It Matters for Gold	Expected Vol Impact
Sep 15-16, 2026	FOMC + Projections	Sets near-term real-yield trajectory; statement, updated dot plot, and press conference signal the rate path into year-end	**Highest**
Oct 27-28, 2026	FOMC Meeting	Second of three remaining meetings; no projections, so the statement and press conference carry the full signal	**Highest**
Dec 8-9, 2026	FOMC + Projections	Final 2026 meeting; updated dot plot sets the tone for 2027 rate expectations and the long-term real-yield outlook	**Highest**

Table 7. Discrete FOMC catalysts. Source: Federal Reserve FOMC calendar.

Event	Frequency / Timing	Why It Matters for Gold	Expected Vol Impact
US CPI (Inflation)	Monthly (typically 10th-14th)	Primary input to the real-yield calculation; an upside surprise pressures gold via higher rate expectations, a downside surprise supports gold via lower real yields	**High**
PBoC Gold Reserve Update	Monthly (typically 1st week)	China is the largest reported official buyer; the monthly update signals whether structural central bank demand remains intact or is slowing	**Medium-High**

Table 8. Recurring monthly catalysts. Sources: BLS, PBoC.

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