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## Weekly Gold Wrap

2025/6/1

### I. Gold Price Recap

COMEX gold closed lower on last Friday, pressured by a stronger US Dollar as markets digested the latest tariff developments. A softer inflation related data sustained hopes for future US rate cuts. COMEX gold (GCQ5) settled at \$3,313.1/oz on May 30, down 0.92% for the day. During the session, prices breached the key \$3,300/oz psychological level, hitting an intraday low of \$3,294.8/oz. Weekly volatility remained high, with COMEX gold trading in a wide \$3,300-\$3,350/oz range, experiencing multiple rollercoaster swings. The GLD ETF closed at \$305.61. Primary pressures comes to persistent USD strength and trade policy uncertainty. Notably, while US Treasury yields retreated post-data, the USD's resilience and persistent "no-landing" economic expectations continued to undermine gold's appeal.

### II. Key Drivers Behind Gold's Volatility

#### 1) Sticky Core Inflation Amid Resilient Economic Indicators

**US inflation falls but remains high.** April core PCE inflation moderated to 2.5% YoY, its lowest level since March 2021, yet remains significantly above the Fed's 2% target. Q1 core PCE was revised down marginally to 3.4% QoQ SAAR (from 3.5%) but held firm at 2.8% YoY, continuing its persistent overshoot of long-term policy thresholds.

#### *Divergent Economic Signals Emerge*

- Resilience Factors:
  - Q1 GDP was revised upward to -0.2% QoQ SAAR (from -0.3%)
  - Improved Michigan Consumer Sentiment bolstered soft-landing expectations
- Underlying Weakness:
  - Consumer spending growth slowed sharply to 1.2% (vs. 1.8% expected)
  - Initial jobless claims rose to 240K (vs. 230K forecast)
  - Existing home sales underperformed projections
  - Corporate profits fell -3.6% QoQ SAAR (down from +5.9% in Q4)
  - Final sales deteriorated to -2.9% QoQ SAAR (from -2.5%)

#### *Data Distortion Masks Domestic Weakness*

Net exports subtracted 4.9% from GDP (slightly higher than prior estimates), driven by a 42.6% import surge as firms front-loaded shipments ahead of potential tariffs. This artificial boost created a paradox of upwardly revised GDP alongside weakening underlying fundamentals.

#### **Market Implications**

Weak data temporarily pressured the USD while supporting gold. However, sustained core inflation and resilient consumer indicators reinforce the Fed's hawkish posture. Markets continue scaling back

expectations for the timing and magnitude of 2025 rate cuts, cementing a "higher-for-longer" consensus. This dynamic elevates gold's opportunity cost, creating persistent tension between:

- 1) Short-term support from soft data
- 2) Structural pressure from elevated real rates

## **2) Cooling Core PCE Fails to Soothe; Fed Watchfulness Intensifies**

Recent US data (Core PCE, Consumer Confidence) reinforced the market view: inflation remains sticky, the economy shows resilience. This creates high uncertainty around the timing and magnitude of Fed rate cuts in 2025. Market expectations for the first cut were pushed back (now Q4 2025 or later), with projected total cuts reduced. This high-rate environment significantly increases gold's opportunity cost and bolsters the USD, exerting core, persistent downward pressure.

### **FOMC Minutes (May 28): Confirmed a cautious stance.**

- Unanimous agreement to hold Fed Funds target range at 4.25%-4.50%.
- Participants widely noted increased economic uncertainty. Maintaining patience and a watchful approach is appropriate pending clarity on government policy impacts.
- Future policy path entirely dependent on incoming data, outlook assessment, and risk balance.
- Some participants expressed concern about upside risks to inflation expectations, fearing rising near-term expectations could entrench pricing behavior and lift long-term expectations.

Barclays maintained its forecast for a single 25bps cut in December 2025 (to counter tariff-induced growth slowdown/inflation), followed by three cuts in 2026. Additionally, Chicago Fed President Goolsbee noted the Fed could resume a rate-cutting path if tariff shocks are avoided.

## **3) Yields, USD & Gold Dynamics**

**US Treasury Yields & Gold:** Post-PCE declines pushed the 10-year yield down, and real yields became lower but remained high, offering gold transient opportunity cost relief. Structurally elevated real yields nevertheless sustain core pressure, increasing non-yielding gold's carrying costs and constraining tactical allocations. Additionally, though the 10Y UST yield dipped, high yields amid 130% US debt/GDP make interest expenses unsustainable given ~2% GDP growth - driving central bank gold demand. June's large Treasury maturities also offer modest gold support.

**Dollar Dynamics & Gold:** DXY gained to 104.32 on robust consumer confidence (52.2) and an Atlanta Fed GDPNow upgrade Q2 growth to 3.8% from 2.2%, elevating gold's USD-denominated costs and capping rallies. While weak Q1 GDP (negative 0.2%) limits further USD gains, delayed Fed cuts maintain headwinds. Long-term fiscal risks (debt at 130% of GDP, Standard Chartered's 2026 "ticking time bomb" warning) reinforce gold's strategic hedge against potential USD depreciation.

## **4) Geopolitical Tensions & Safe-Haven Demand**

Geopolitical hotspots (Middle East, Russia-Ukraine) saw no significant escalation this week. Improved risk appetite reduced gold's safe-haven appeal, depriving it of material support. Developments included Moscow confirming receipt of Ukraine's response to proposed Istanbul peace talks, and the White House announcing Israel's acceptance of a US ceasefire proposal. Nevertheless, underlying geopolitical uncertainty maintains gold's strategic relevance as a portfolio diversifier.

## **5) Tariff Turmoil Drives Gold Swings**

Gold exhibited extreme volatility from US tariff policy reversals:

- May 29: A US Court ruling declaring prior tariffs illegal triggered dollar strength and gold selling.
- May 30: An appellate court reinstatement prompted dollar weakness and gold buying, amplified by Navarro's threat to enforce tariffs "through alternative means".
- May 31: Reports of potential 15% emergency tariffs halted gold's recovery.

Legal ambiguity extends through mid-June (Plaintiff deadline: June 5; Government response: June 9). Potential tariffs risk "stagflation" – simultaneously depressing growth while boosting inflation – consistent with Fed minutes. Gold's paradox persists: Tariff uncertainty supports haven demand, yet the dollar's liquidity premium prevails. Significant supply chain disruption remains necessary to activate gold's stagflation hedging capacity.

## 6) Physical Gold Demand & Technicals

**Physical Gold Demand:** Central bank gold accumulation continues steadily. Beyond the PBOC, institutions like Poland's and India's central banks remain key buyers. This strategic diversification reduces excessive USD exposure, achieved by shifting reserves from US Treasuries to gold. Sustained purchases through June should provide firm underlying support.

**Technicals:** London Spot gold at \$3,313.98/oz faces resistance at \$3,335-3,345. Key support lies at \$3,290-3,330.

## III. Market Sentiment

Gold's elevated volatility reflects positioning saturation after its around 20% YTD surge. This over extension increases fragility, leaving prices prone to whipsaw action amid heightened sensitivity to geopolitics, trade policy, and Fed signals.

## IV. Outlook & Key Catalysts

The core conflict remains Fed repricing: Resilient consumption outweighs cooling PCE, while officials maintain rates are "well-positioned." Gold needs decisive catalysts:

1. June 9 tariff brief potentially triggering stagflation trades
2. June 10 core PCE substantially below 2.4% to challenge "higher-for-longer"

### Institutional Views

- J.P. Morgan: \$4,000/oz possible by Q2 2026
- Citi: Post-2026 downside risks from weakening retail demand

## V. Quantitative Strategy Review

DeCTP-12 Strategy: 10-Year Backtest Snapshot (Apr 2016-May 2025)

### Core Performance

Starting capital: \$2M

Final value: \$8.42M ( ~17.7% CAGR)

Strategy profile: "Cut losses, scale wins"

### Key Metrics

- Win Rate: 44.4% (Quality > quantity – 4 wins per 10 trades)

### Risk Management

- Max Drawdown: -10.9% (\$109K per \$1M, distinct from max equity drawdown)
- Return/Drawdown Ratio: 1.48 (returns 1.5x risk exposure)

### Current Edge

Our strategy exhibits strong breakout capability in high-volatility regimes (e.g., May 2025 delivered 12.5x returns based on actual margin used). Current gold market volatility—amplified by geopolitical tensions over tariff policies—has surged to yearly highs, creating optimal conditions for short-option strategies.

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