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Weekly Gold Wrap

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I. Gold Price Recap

Last Friday (NY time May 15, Beijing time early May 16), COMEX gold futures fell 3.01% to settle at USD 4,544.6/oz, down 3.96% for the week. COMEX silver futures dropped 10.47% to USD 76.395/oz, down 5.55% weekly.

Gold edged higher early week, then reversed sharply on stronger USD from elevated U.S. inflation, losing over 3% intraday. With a lull in major data, geopolitics became the key driver.

-**Monday**: Trump rejected Iran's ceasefire offer; gold weakened slightly in Asia. U.S. stocks hit new highs, USD eased briefly; volatility remained muted.

-**Tuesday:** Gold rallied to a three-week high of USD 4,770/oz, then retreated after hotter-than-expected April U.S. CPI, turning the tide from bullish to range-bound downside.

-**Wednesday:** April U.S. PPI rose to 6% YoY, above expectations and a 2022 high, signaling renewed inflation pressure. Markets priced higher Fed hike odds (20% → nearly 50%); 10Y Treasury yields climbed, pressuring gold.

-**Mid-week**: India raised gold/silver import duties from 6% to 15% and curbed physical buying to stabilize its currency, denting physical demand and keeping gold weak.

-**Friday:** Multiple factors pushed gold below USD 4,600/oz, ending the week with steep volatility and a >3% loss.

II. Key Drivers Behind Gold's Volatility

1) U.S. Economic Indicators Drive Sharp Correction in Gold

(1) Major U.S. economic indicators released this week and their impact on gold prices

➢ **April U.S. CPI Headline CPI**

3.8% YoY (vs. 3.3% prior, 3.7% consensus), highest since May 2023; +0.6% MoM (in line). Core CPI: +0.4% MoM / +2.8% YoY, both slightly above expectations, reflecting persistent price stickiness.

➢ **April U.S. PPI**

PPI surged to 6.0% YoY (vs. 4.3% prior, 4.9% consensus), a 2022 high, signaling broad-based production-side inflation.

(2) Impact on Gold:

Resurgent consumer and producer inflation boosted Fed tightening expectations, lifting Treasury yields and USD to cap gold. Middle East geopolitics and safe-haven demand limited downside.

2) Monetary Policy & Gold Market Impact

(1) Fed Developments & Official Views

➢ **Key Leadership Transition**

May 13: The U.S. Senate confirmed Kevin Warsh as Fed Chair.

May 15: Jerome Powell's term as Chair ends; he remains a Governor until 2028.

Warsh pledged policy independence and a cautiously hawkish stance.

➢ **Rare FOMC Divergence**

The latest policy meeting saw a clear split. Three voters (Hammack, Logan, Kashkari) collectively opposed dovish language—a hawkish dissent not seen recently, which directly reversed market easing expectations.

Official Views:

-Beth Hammack (Cleveland Fed, Hawkish): Inflation rebound risks are rising; price uncertainty is high. Premature rate cuts are unwarranted; hike option retained.

-Lorie Logan (Dallas Fed, Hawkish): Explicitly warned against inflation rebound; high inflation not effectively contained. Rejected early rate cut expectations; supports tight policy to counter energy/consumer inflation.

-Neel Kashkari (Minneapolis Fed, Hawkish): Voted against dovish wording. Stagflation risks + Middle East energy shocks make inflation stickier than expected. Policy must prioritize anti-inflation; no easy easing.

-John Williams (NY Fed, Neutral-Dovish): Still expects inflation to gradually fall to 2% long-term. The rebound delayed cuts; rates on hold near-term, cuts still possible.

-Austan Goolsbee (Chicago Fed, Neutral-Hawkish): Warned oil-driven inflation risks; disinflation pace slowed. No cut certainty; data-dependent policy.

(2) Market Watch Data

➢ **Prime Market Terminal Data:**

Per CME FedWatch:Fed rate: 3.50% – 3.75%.

June meeting: 96.8% hold, 3.2% cut (25bp).

Rate-cut expectations faded; higher-for-longer rates priced in, pressuring gold valuations.

(3) Impact on Gold Prices

A hawkish Fed stance and higher-for-longer rate expectations raise holding costs for non-yielding gold, capping prices near-term. Middle East geopolitics offsets downside, creating a mixed trading bias.

3) Yields, USD & Gold Dynamics

(1) Dollar Index Behavior

As of New York closing on May 16, the U.S. Dollar Index rebounded strongly this week and ended its previous downtrend. It was mainly boosted by hotter-than-expected U.S. inflation data and tightening Fed policy expectations. Soaring inflation data and rising Treasury yields jointly lifted the dollar.

(2) **US Treasury Yields & Gold Dynamics**

The 10-year U.S. Treasury yield rose sharply this week. The main drivers include rebounding sticky inflation, fading easing expectations and receding safe-haven capital inflows, all pushing yields higher.

(3) Impact on Gold

Stronger dollar and higher long-term bond yields continuously weigh on gold prices. Yet Middle East geopolitical risks and global central bank gold purchases offer bottom support, making gold fluctuate lower under the interplay of inflation pressure and safe-haven demand.

4) Geopolitical Tensions & Safe-Haven Demand

(1) Geopolitical Tensions

1) U.S.-Iran geopolitical conflicts in the Middle East

➢ **UAE Directly Joins Conflict;**

Israel-UAE Military Alliance Goes PublicMay 11: UAE fighters secretly struck Iran's Lavan Island oil refineries, triggering fires and crippling production. May 12: Israel deployed Iron Dome systems and troops to the UAE to intercept Iranian missiles. May 13: Netanyahu paid a secret visit to the UAE, forming the Gulf "Israel-UAE Alliance" and leaving Iran caught in a pincer.

➢ **May 15–17: US-Iran Talks Collapse;**

Military Strikes ImminentIran formally rejected the US 14-point reconciliation memo and delayed a response. The US confirmed large-scale air strikes as early as next week (May 18–24), deploying 50,000 troops + 2 carrier battle groups in the Middle East targeting Iran's nuclear, military and energy hubs. Trump downplayed conflict verbally but escalated tough action: claiming the ceasefire "remains valid" while warning Iran of "more intense strikes" if it refuses to sign.

➢ **Strait of Hormuz**

Shipping nearly halted; oil prices surged. Iran tightened controls, requiring 72-hour transit permits and banning Israeli vessels. Daily traffic dropped from 135 to near zero. US escorts and Iranian vessels clashed repeatedly; local firefights erupted. Fujairah oil facilities were hit by drones/missiles, pushing oil prices higher.

➢ **Lebanon-Israel Front**

Peace talks stalled; Hezbollah continued resistance. The third round of Washington talks failed: Israel insisted on disarming Hezbollah first; Lebanon demanded Israeli withdrawal and an end to air strikes. Israeli raids killed nearly 3,000 in Lebanon; animosity deepened, talks effectively collapsed.

2) Progress of the Russia-Ukraine Conflict

➢ **Battlefield Situation**

This week's fighting centered on Donbas and Zaporizhzhia. Russian forces advanced locally; Ukrainian defenses remained under pressure. Kyiv suffered intensive air strikes on May 15, causing casualties. Ukraine replaced its top military commander, triggering frontline disarray and low morale.

➢ **Aid to Ukraine**

The EU's 19th round of Russia sanctions backfired, worsening Europe's energy and inflation crises. Several nations scaled back aid to Ukraine; NATO divisions deepened.

➢ **Ceasefire:**

The Victory Day temporary truce ended as scheduled. Both sides accused each other of violations; fierce fighting resumed immediately with no de-escalation.

(2) Impact on Gold

Escalating Middle East tensions and lingering Russia-Ukraine conflicts lift safe-haven demand for gold. Rising energy prices delay rate cuts and cap gold's upside, keeping gold in strong consolidation.

5) Tariff Turmoil Drives Gold Swings

① Tariff & Trade Policy Developments

➢ **China-US Summit Signals Trade Easing**

May 13: China-US trade teams held consultations in South Korea. May 14: The two presidents met in Beijing, reaching balanced, pragmatic consensus on trade. They agreed to establish Trade and Investment Councils, in principle cutting tariffs reciprocally on equivalent products of mutual concern, and resolve non-tariff barriers and market access issues for some agricultural products, easing short-term trade tensions.

➢ **US Continues China Trade Probes**

The US kept advancing trade investigations against China. This week, the USITC and Commerce issued rulings and launched probes on ink cartridges and integrated circuits, initiated sunset reviews of anti-dumping/countervailing duties on industrial goods, and maintained existing tariffs, showing no relaxation.

➢ **EU Advances China Trade Restrictions**

Foreign media **reported** the European Commission drafted tough trade defense policies against China, planning to expand safeguard investigations, raising expectations of more barriers.

② Impact on Gold Prices

This week's China-US summit eased trade friction expectations, curbing short-term safe-haven demand. Yet ongoing US trade actions, expected EU restrictions, and global supply chain uncertainty support gold's hedging and inflation-hedge demand. Gold trades in a strong, event-driven range with mixed positive/negative trade factors.

6) Gold Market Observation

World Gold Council: China Gold Market Update: Notable Rise in Gold Reserves

➢ **Overall gold price performance in China in April**

Gold priced in USD edged up 0.1%, while gold priced in CNY dipped 0.4% mainly due to stronger RMB, with prices moving sideways for the whole month.Eased Middle East tensions boosted gold prices earlier in the month, while mounting tensions in the Strait of Hormuz pushed up oil prices later, cooled rate cut expectations and dragged gold gains lower.

➢ **Domestic investment demand in China**

Domestic gold ETFs saw net inflows for eight consecutive months, attracting 3.5 billion yuan in April with holdings rising to 301 tonnes, hitting a record month-end high. Inflows continued after domestic gold prices stabilized above 1000 yuan per gram in May.Trading activity of domestic gold futures weakened with average daily turnover falling month-on-month yet staying above the five-year average. Robust stock market performance diverted part of capital from gold investment.Falling domestic bond yields together with geopolitical risks still underpin residents' demand for gold allocation.

➢ **Physical consumption and wholesale demand**

Gold withdrawals from Shanghai Gold Exchange stood at 103 tonnes in April, down 23% month-on-month, entering the traditional slack consumption season in the second quarter.Jewelry retailers and banks slowed restocking pace. Residents preferred travel and cultural consumption, leading to sluggish gold jewelry demand.

➢ **Central bank gold purchases**

China's central bank added 8 tonnes of gold reserves in April, marking the 18th consecutive monthly increase and the largest monthly purchase since December 2024. Total official gold reserves reached 2322 tonnes.

- **Import data**

China's net gold imports surged 49% month-on-month in March, with total net imports hitting 316 tonnes in the first quarter, rising sharply both year-on-year and month-on-year. Domestic and overseas gold price spreads facilitated gold imports.

- **Market outlook**

Weak seasonal jewelry demand means steady gold prices can only offer mild support to physical gold consumption.Reviving stock market sentiment and uncertain gold price trend will curb short-term investment demand for gold bars.Geopolitical risks and sustained central bank gold purchases remain the core long-term supports for gold prices.

III. Outlook & Key Catalysts

- **Next Week's Focus:**

May 18 Monday: U.S. April housing starts and building permits data

May 19 Tuesday: Flash U.S. May manufacturing PMI and Fed officials speeches

May 20 Wednesday: Minutes of May FOMC meeting

May 21 Thursday: U.S. weekly initial jobless claims and April existing home sales data

May 22 Friday: U.S. May Michigan consumer sentiment index

Key focuses: Evolution of Middle East situation and energy market swings, rate-cut signals from Fed remarks and meeting minutes, changes in tariff policies, as well as linked impact of USD and U.S. Treasury yields on gold market.

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