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Weekly Gold Wrap

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I. Gold Price Recap

On Friday (July 31, New York time; early August 1, Beijing time), international precious metal futures closed lower late. COMEX gold dropped 1.28% to $4,107.20/oz, up 1.26% weekly and down 0.83% in July. COMEX silver fell 1.77% to $57.970/oz, with a weekly loss of nearly 1% and a 3.63% decline in July. **Gold fluctuated throughout the week amid Middle East geopolitics and USD movements. It opened higher then retreated on Monday, slumped notably on Tuesday, rebounded for two straight days on Wednesday and Thursday, and declined again on Friday as the USD bounced back, erasing most previous gains.**

-Monday: Weekend geopolitical news caused an opening jump. The US announced suspension of military strikes against Iran and Iran halted retaliation, easing risk aversion and lifting gold. Iran later clarified no ceasefire talks had occurred. Safe-haven sentiment cooled, and gold gave up part of its gains.

-Tuesday: Middle East conflicts escalated. Saudi Arabia attacked Iran-backed militias in Iraq to retaliate against drone assaults on Saudi oil facilities; Iran claimed attacks on US military bases in Jordan. The changed risk sentiment weighed on gold, which fell more than 1% intraday.

-Wednesday: USD selloffs fueled gold's rebound. The Fed kept interest rates unchanged at 3.5%-3.75% in the July FOMC meeting. Markets had priced a 30% chance of a 25-bp rate hike, and faded hike expectations dragged the USD lower. Fed Chair Warsh delivered hawkish remarks after the meeting, sticking firmly to the 2% inflation target and committing to prolonged tight monetary policy.

-Thursday: The USD stayed weak and gold rose for a second consecutive session. US Q2 annualized GDP growth was 1.5%, below market expectations and Q1's 2.1%, pointing to softer overall economic growth. USD depreciation against the JPY was mainly driven by Japan's forex intervention, leaving fragile fundamental support for USD downside.

-Friday: Market attention returned to geopolitics. The USD rebounded, sending gold lower and wiping out most gains accumulated on Wednesday and Thursday.

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**

➢ **Q2 Annualized GDP**

Q2 annualized GDP growth stood at 1.5%, lower than market expectations and Q1's 2.1%. Excluding inventory and government spending disturbances, annualized final private demand hit 3.9%, hitting a two-year high backed by robust consumption and AI-related corporate investment. Total economic growth slowed, yet domestic demand remained strong with no material recession risks.

- **June PCE Inflation**

Headline PCE rose 3.7% year-on-year and core PCE rose 3.3% year-on-year. Inflation edged down but remained far above the 2% target with sticky downward momentum.

- **Weekly Initial Jobless Claims**

Initial jobless claims for the week ending July 25 reached 197,000, slightly higher than the prior reading. Employment weakened marginally but stayed generally stable without sharp deterioration in the labor market.

- **July University of Michigan Consumer Sentiment**

Final July Michigan Consumer Sentiment was 55.2, higher than the preliminary reading and hitting a five-month high. Oil prices dipped then rebounded during the survey period (June 23-July 27). Consumer willingness to spend and economic expectations improved; short-term inflation expectations fell to 4.2%, while 5 – 10 year long-term inflation expectations held steady at 3.3%. Many respondents worried AI may hurt employment while acknowledging its productivity benefits.

- **Chicago PMI**

July Chicago PMI printed 57.6, exceeding the expected 56 and previous 56.7. The index stayed above the 50 expansion threshold, reflecting mild acceleration in Midwest business activity.

(2) Impact on Gold:

US economic data presented mixed signals. Solid economic momentum and sticky inflation underpinned Fed tightening, capping gold upside. However, cooling short-term inflation expectations and mild employment softness eased upward pressure on Treasury yields, offering mild support to gold.

2) Monetary Policy & Gold Market Impact

(1) Fed Developments & Official Views

- **Fed Updates**

-The Fed held interest rates steady at 3.5%-3.75% in the July FOMC meeting, marking five consecutive rate holds. Three voting members dissented and called for a 25-bp hike: Hammack (Cleveland Fed), Kashkari (Minneapolis Fed), Logan (Dallas Fed). This marked the largest number of hawkish dissents for an on-hold meeting since 2016, revealing rising hawkish voices inside the Fed. The policy statement saw minimal revisions with no forward rate guidance. The Fed relied on climbing market Treasury yields to realize passive tightening while reserving full policy flexibility.

-Warsh adopted a hawkish stance at the press conference, vowing to hike rates if needed to hit the 2% inflation target. He cited US economic resilience and noted higher Treasury yields had delivered passive tightening, removing the urgency for immediate hikes. Policy remained data-dependent with no clear September policy roadmap, leaving September hike odds uncertain.

- **Review of Comments from Fed and White House Officials**

-**Dallas Fed's Logan:** Inflation cannot naturally fall to target levels. Middle East conflicts may push up energy inflation, so the Fed must retain hiking flexibility to counter price rebounds; a rate hike was warranted this meeting.

-**Cleveland Fed's Hammack:** Current policy is insufficiently restrictive. Inflation pressures stem from more than supply-side factors. The longer high inflation lingers, the higher the cost to curb inflation.

-Minneapolis Fed's Kashkari: Recent inflation declines are accidental; Middle East tensions pose long-term inflation risks. Gradual small hikes are preferable to prolonged inaction to avoid drastic tightening later.

-White House Economic Advisor Hassett: The rally in 10-year Treasury yields is temporary; AI productivity growth will help ease inflation.

(2) Market Watch Data

➢ **Prime Market Terminal Data:**

Based on the CME FedWatch Tool, markets priced a 30% probability of a 25-bp July hike pre-meeting. After the decision, near-term rate-cut expectations ticked up, with September hike odds standing at 35%. Widening Fed divergence means stronger inflation or jobs data will rapidly lift September hike odds; expectations of prolonged high interest rates remain intact.

(3) Impact on Gold Prices

The rate hold briefly pressured the USD and supported gold's bounce. Nevertheless, three hawkish dissents plus Warsh's anti-inflation hawkish remarks ruled out rate-cut hopes and limited sharp gold rallies. Gold traded sideways all week on shifting hike expectations, with prices jointly constrained by Fed policy expectations and Middle East geopolitics.

3) Yields, USD & Gold Dynamics

(1) Dollar Index Behavior

The US Dollar Index (DXY) closed at 99.788 on Friday's New York session, down 1.69% week-on-week. Two major factors weighed on the USD: dovish Fed results undermined USD bullishness, and Japan's forex intervention dealt another blow. DXY retreated from an intraday high of 100.450 to a low of 99.693. Safe-haven USD buying lifted the index slightly on Friday but failed to reverse the weekly loss.

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

At Friday's close (July 31), the 10-year US Treasury yield rose 6.40 bps to 4.733%, up 5.76 bps on the week and staying near its peak since January 2025. Resilient US inflation, oil price gains driven by Middle East tensions and Fed hawkishness lifted yields, raising gold's holding cost and restricting gold rebounds.

(3) Impact on Gold

Divergent drivers dominated trading: USD weakness boosted gold while elevated Treasury yields capped gains. USD slumps fueled gold's rally on Wednesday and Thursday; USD rebounded alongside repriced geopolitical risks on Friday, erasing most gold gains. Opposing USD and yield forces triggered volatile gold trading, with long-term negative pressure from high interest rates unresolved.

4) Geopolitical Tensions & Safe-Haven Demand

(1) Geopolitical Tensions

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

➢ Geopolitics fluctuated sharply this week. On July 24, the US suspended military strikes against Iran and Iran paused retaliation, creating temporary ceasefire optimism. On Monday, Iran denied holding ceasefire talks, dispelling easing hopes. On Tuesday, Middle East conflicts escalated: Saudi Arabia struck Iran-affiliated militias in Iraq; Iran attacked US military bases in Jordan; Houthi attacks on Red Sea vessels lifted shipping risks and Brent crude prices. Markets priced higher inflation and Fed tightening risks on costlier oil. No large-scale military clashes occurred between the US and Iran from Wednesday to Thursday, leading to a stalemate; investors shifted focus to Fed decisions, US GDP and JPY-driven USD moves.

➢ **Key Weekend Shift :** The US carried out airstrikes on Iranian military facilities on Friday. The US initially planned to bomb Iranian energy infrastructure and issued evacuation alerts for US citizens in the Middle East, stirring panic. Thanks to mediation by Middle Eastern countries plus a tentative framework (opening the Strait of Hormuz and managing nuclear risks), Trump canceled further strikes and resumed diplomatic talks. Risk sentiment cooled, oil and inflation expectations fell, supporting a mild gold uptick. Only new military actions were suspended; US-Iran tensions stayed tense with no substantive ceasefire.

- **Persistent Downside Risks:** Israel-Lebanon conflicts and Red Sea attacks continue. Core US-Iran disputes remain unresolved, with both sides reserving the right to retaliate militarily. Negotiations face high uncertainty, and recurring geopolitical swings will keep triggering short-term gold volatility.

2) Progress of the Russia-Ukraine Conflict

The Russia-Ukraine war remained in positional stalemate with regular long-range strikes and no decisive frontline breakthroughs. Its marginal impact on gold, USD and Treasury yields weakened, offering only short-term mild safe-haven support instead of trend guidance.

(2) Impact on Gold

Gold fell early week amid vanished easing hopes and rising tensions; geopolitical calm midweek allowed USD weakness to lift gold. Airstrike fears weighed on gold on Friday, while de-escalation calmed risk sentiment afterward. Gold volatility was jointly driven by USD moves and oil-linked inflation expectations.

5) Tariff Turmoil Drives Gold Swings

① Tariff & Trade Policy Developments

- **Sino-US Tariff Landscape**

The US implemented new cumulative Section 301 tariffs on China on July 24. The tariff exemption window fully closed on July 28, ending all transitional buffers. China-US agricultural talks only produced purchase intentions without tariff relief, lifting imported inflation, reinforcing Fed tightening and pressuring gold in the short run. Domestic US enterprises sued the tariffs over legitimacy, bringing uncertainty to future tariff trends.

- **US Global Tariff Initiatives**

The US launched updated global Section 301 tariffs to replace the expiring 10% temporary tariffs. Thirty-eight countries including China and Brazil are subject to the top 12.5% tariff rate, pushing up import costs. Higher costs support Fed tightening and cap gold short-term, while elevated trade uncertainty lifts long-term safe-haven demand for gold. Brazil filed a WTO complaint, prepared reciprocal countermeasures and expanded trade with China to hedge risks.

- **European Tariff Developments**

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② Impact on Gold Prices

Near-term broad tariff hikes solidify inflation stickiness, justify Fed tightening and lift Treasury yields to cap gold upside. Frequent global trade frictions weaken global economic stability and sustain long-term safe-haven demand, forming a bottom for gold. Tariffs exert short-term downward pressure yet long-term upward support, extending gold's wide sideways volatility.

6) Gold Market Observation

1. Gold Demand Trends: Q2-2026 - WGC

(1) Overall Overview

LBMA average Q2 gold price hit USD 4,506.29/oz, down 8% quarter-on-quarter yet surging 37% year-on-year. Q2 total gold supply and demand both reached 1,269 tonnes (flat YoY). Mine supply rose 2% YoY, while gold recycling fell 6% YoY as lower gold prices reduced residents' willingness to sell gold. Q2 total demand including OTC transactions was flat YoY. H1 total demand climbed 2% YoY to 2,522 tonnes, with total transaction value hitting an all-time high of USD 380 billion.

(2) Breakdown of Demand by Segment

① **Physical Jewellery: Lower Volume, Higher Value with Broad Global Pressure**

-Q2 jewellery consumption was 278 tonnes, plunging 17% YoY to the lowest quarterly level since the pandemic. High gold prices curtail purchase volume, yet consumption value rose 14% YoY to USD 40 billion, as consumers favored lightweight and low-purity gold products.

-China: Jewellery consumption slumped 28% YoY due to high gold prices, sluggish domestic consumption and capital diversion to gold bars and coins. Residents opted for old-gold trade-ins rather than new gold purchases.

-India: Jewellery consumption fell 15% YoY on higher import tariffs and off-peak wedding seasons; buyers chose lightweight jewellery while total spending rose. Jewellery demand weakened across

-**Europe, America, the Middle East and Southeast Asia,** supported merely by wedding and holiday seasonal consumption.

② **Physical Investment (Gold Bars & Coins): Back to Normal with Regional Divergence**

-Global Q2 bar and coin demand was 307 tonnes (flat YoY), down 36% quarter-on-quarter from Q1's abnormally high 477 tonnes, as speculative buying cooled to regular levels. H1 bar and coin demand stayed historically high.

-China remained the world's largest physical gold investment market with Q2 demand of 107 tonnes (down 7% YoY). Domestic low interest rates, a sluggish property sector, geopolitical hedging and steady central bank buying supported gold allocation; VAT preferences for gold bars diverted spending from jewellery.

-India's bar and coin demand rose 9% YoY amid festival purchases. Import tariff volatility prompted residents to buy gold on price dips. Retail investment softened in Europe and America, while demand jumped in Indonesia, Thailand and other Southeast Asian nations on currency depreciation and economic uncertainty.

③ **Gold ETFs: Q2 Net Outflows with East-West Capital Divergence**

-Global gold ETFs posted net outflows of 45 tonnes in Q2. North America led redemptions amid Fed hike expectations, higher real Treasury yields, USD strength and gold corrections. Asian ETFs recorded strong H1 inflows yet mild Q2 outflows; Indian ETFs added holdings on price declines. European ETFs edged up on geopolitical hedging and ECB tightening.

④ **Central Bank Gold Buying: Strong Q2 Rebound; Full-Year Purchases Likely Lower Than 2025**

-Global central banks recorded net purchases of 289 tonnes in Q2, jumping quarter-on-quarter and returning to a four-year high buying pace. H1 net purchases totaled 345 tonnes, the lowest H1 reading since 2022 due to central bank sales in Q1.

-Major buyers: Poland added 51 tonnes in Q2; China's central bank bought 33 tonnes, the largest quarterly purchase since Q4 2023. Uzbekistan, Kazakhstan and Jordan also increased gold reserves.

-Minor sellers: Russia slightly cut holdings, while Turkey sharply reduced gold sales.

-Long-term drivers: Geopolitical risks, foreign reserve diversification and inflation hedging drive central bank purchases. 89% of surveyed central banks plan to expand gold reserves in the next 12 months, yet total 2026 purchases will probably be lower than 2025.

⑤ **Industrial Gold Demand: AI Support Offsets Weak Consumer Electronics Demand**

Q2 industrial gold usage rose 2% YoY to 80 tonnes. Electronics demand grew 4% driven by AI servers, high-end chips, radio frequency components, satellites and new energy vehicles; demand from conventional consumer electronics such as mobile phones and laptops weakened. Usage in dental and other industrial sectors shrank, with high gold prices pushing industries to adopt alternative materials.

(3) Supply-side Core Factors

-Mine supply: Q2 mine output reached a quarterly high of 965.6 tonnes, up 2% YoY on production growth in Canada, Chile and West Africa, offset partially by output drops in China, the US and Mexico. Mining costs trended higher industry-wide.

-Recycled gold: Q2 recycled gold totaled 326.1 tonnes, down 6% YoY and 13% QoQ. Lower gold prices discouraged liquidation; Chinese and Indian households preferred trade-ins over cashing out, tightening recycled supply. Recycled gold supply was more resilient in Europe and America. Mining enterprises kept cutting hedging exposure with shrinking forward hedging positions.

(4) H2 Outlook

-Demand drivers: OTC and Asian physical investment form core demand drivers. North American ETF flows are highly sensitive to Fed rates, USD and Treasury yields. Central bank buying will stay steady yet weaker than 2025. High gold prices cap jewellery growth, with only wedding and holiday seasonal rebounds expected. AI will sustain long-term upside for industrial gold demand.

-Supply outlook: Mine output sees limited growth due to long mine construction cycles. Without sharp gold rallies, households will not sell gold massively, restricting recycled supply growth.

-Catalysts: Bullish factors include USD depreciation, stock volatility, credit tightening and geopolitical escalations. Bearish factors cover renewed Fed hikes and higher real Treasury yields.

-Regional pattern: Physical demand from China, India and Southeast Asia offsets Western capital volatility, acting as a stabilizer for global gold demand.

III. Outlook & Key Catalysts

➢ **Next Week's Focus:**

July 27 (Mon): US July Dallas Fed Manufacturing Index

July 28 (Tue): US July Conference Board Consumer Confidence Index

July 29 (Wed): US June PCE Price Index, personal income and personal spending

July 30 (Thu): Weekly initial jobless claims (ending July 25);

July 31 (Fri): US July nonfarm payrolls, unemployment rate and average hourly earnings

Core focus: July PCE inflation and nonfarm payrolls jointly guide the Fed's September policy path. Fed remarks alter hike odds, while recurring Middle East unrest drives crude and safe-haven volatility to swing gold prices.

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