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Weekly Gold Wrap

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I. Gold Price Recap

For the week ending August 21 (New York session, early morning August 22 Beijing time), COMEX gold futures surged 2.39% on Friday to settle at USD 4,680.60/oz, recording a weekly gain of 5.56%. COMEX silver futures closed at USD 69.53/oz, up 2.09% on Friday and 6.79% week- on- week. Precious metals staged a strong breakout, with gold breaking above USD 4,600/oz and hitting a new interim high.

Key drivers of weekly performance: The U.S. Treasury's decision to double long- dated Treasury buybacks compressed long - term real rates, elevated market pricing for Fed rate cuts, and triggered a sharp pullback in the U.S. Dollar Index. Escalating geopolitical stalemate over the Strait of Hormuz and sudden US-Canada trade frictions boosted safe- haven demand and put a floor under price corrections.

On Monday, soft U.S. economic data further scaled back market expectations for a September Fed hike, weighing on the U.S. dollar. Gold advanced nearly 1%, setting the tone for the bullish weekly trend.

On Tuesday, sentiment reversed amid heightened Middle- East tensions. Hawkish U.S. rhetoric plus vessel attacks in the Strait of Hormuz pushed 30- year Treasury yields higher, and gold erased prior gains to close lower.

Wednesday marked a critical inflection point. The U.S. Treasury announced a doubling of long- dated debt buybacks to stabilize bond- market liquidity. Treasury yields tumbled, the U.S. dollar came under heavy selling pressure, and gold broke out of its consolidation range, closing above USD 4,500/oz for the first time since early June. Later in the session, the U.S. unveiled sweeping new economic sanctions against Iran, injecting caution into market sentiment.

Gold traded sideways with limited volatility on Thursday, closing roughly flat. Sanction- related news kept risk sentiment conservative and capped further upside.

On Friday, gold resumed its advance as U.S. dollar rebound momentum faded, pushing prices above USD 4,600/oz to a 12- week high. The release of resilient August S&P Global PMI readings arrested the U.S. dollar's decline and moderated gold's upward momentum into the weekend close.

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

- **Initial Jobless Claims**

Printed at 206k, below consensus of 210k; prior reading revised up to 212k. The four- week moving average edged higher. Low claims point to ongoing labour- market resilience with no clear signs of deterioration, constraining market pricing for Fed easing.

- **August S&P Global Flash PMI**

Manufacturing PMI fell slightly to 53.2 (prior 53.9). Services PMI jumped to 56.8, a 20-month high and well above expectations. Composite PMI rose to 56.0. Strong services activity offset manufacturing softness and signalled solid Q3 U.S. economic momentum, dampening rate-cut expectations. No major monthly inflation or consumption data (CPI, PPI, retail sales) were published this week.

(2) Impact on Gold:

Resilient initial jobless claims and robust services PMI reinforced the view of solid U.S. economic performance and curbed easing expectations, limiting gold's further upside. These data partially offset bullish impulses from Treasury buybacks and contributed to profit-taking after gold's sharp rally.

2) Monetary Policy & Gold Market Impact

(1) Fed Developments & Official Views

➢ **Fed and White House Commentary**

-Minutes from the July FOMC meeting revealed internal divisions. Most policymakers favoured steady rates, yet several warned of slower-than-expected inflation cooling and kept further rate hikes on the table. Officials flagged upside inflation risks stemming from Middle-East-driven energy-price shocks, adding uncertainty to the policy path.

-Following the Treasury's expanded long-dated buyback announcement, market participants raised concerns over fiscal dominance of monetary policy. Fed officials pushed back publicly, reaffirming monetary-policy independence, noting buybacks are solely intended to improve bond-market liquidity and do not guide federal-funds-rate decisions.

-Officials also emphasised that swings in long-dated Treasury yields alone cannot justify monetary-policy adjustments.

-Multiple regional Fed presidents delivered public speeches post-minutes, with divergent hawkish-dovish stances. Markets now look ahead to the Jackson Hole Symposium for clearer policy signals.

➢ **Selected regional Fed official remarks:**

-Alberto Musalem(St. Louis Fed): Hawkish; supported a rate hike at the July meeting. Noted still-loose financial conditions and remained open to further hikes, arguing incremental tightening entails less market disruption. Stated fiscal debt-management operations will not sway Fed policy judgements.

-Daly (San Francisco Fed): Moderate stance; viewed current monetary policy as broadly appropriate and opposed pre-emptive rate hikes. Argued long-dated yield moves should not serve as direct policy inputs and saw no erosion in inflation credibility.

Nearly all policymakers referenced upside energy-inflation risks from Middle-East tensions and kept a September rate-hike on the table.

-White House / Trump: Stated Treasury buybacks fall under the Secretary's purview. The administration aims to reduce debt burdens via economic growth and exerts no interference in Fed monetary policy.

(2) Market Watch Data

➢ **Prime Market Terminal Data**:

Hawkish FOMC minutes and solid PMI data triggered a modest repricing of hike odds. Probability for a 25bp September hike briefly neared 39% early in the week, before easing to roughly 36% by Friday as markets digested the buyback news. Keeping rates unchanged remains the baseline market expectation. Cross-asset sentiment oscillated between fiscal-policy optimism, economic resilience and geopolitical risk. Volatile long-term real-rate expectations drove sharp swings across precious-metals markets.

(3) Impact on Gold Prices

Hawkish minutes and official rhetoric capped gold's upside, while Treasury buybacks delivered strong bullish support via lower real rates. Resilient economic data created headwinds amid persistent Middle-East geopolitical noise. Alternating bull- bear dynamics led to profit- taking after key price breaks, with gold trading in elevated wide ranges.

3) Yields, USD & Gold Dynamics

(1) Dollar Index Behavior

DXY closed at 98.83 (New York close, August 21), posting volatile whipsaw price action driven primarily by Treasury- fiscal policy. Early- week support stemmed from hawkish FOMC- minute digestion and geopolitical safe - haven inflows. The Treasury's buyback announcement triggered heavy short - covering in Treasuries and aggressive U.S. dollar selling, sending DXY down to a three- month low of 98.47. However, dollar weakness proved transient. Hawkish Fed commentary, low initial jobless claims and the strong services PMI underscored U.S. economic resilience and enabled a partial rebound, further supported by safe- haven flows amid escalating U.S.- Iran sanctions. The index traded within 98.47-99.69 for the week, with a markedly lower weekly average, setting favourable conditions for gold's breakout.

(2) US Treasury Yields & Gold Dynamics

The 10- year Treasury yield settled at 4.74% on August 21. Swings in long- dated yields represented the dominant driver of gold performance this week. Early- week sentiment remained bearish for bonds amid concerns over fiscal deficits and excessive long- dated supply, with the 30- year yield nearing a 19- year high; higher real rates suppressed gold rebounds.

A critical turning point arrived as the Treasury announced expanded long- term buybacks to restore bond- market liquidity. Markets rapidly repriced long- dated supply dynamics, the 10- year nominal yield fell to an intraday low of 4.63%, and 10- year TIPS real rates declined materially. As a non-interest- bearing asset, gold's opportunity cost fell sharply, providing the direct catalyst for its decisive breakout.

Nevertheless, markets quickly priced out buyback - driven optimism, recognising that announced purchase sizes are insufficient to resolve structural U.S. fiscal and long - dated supply challenges. Hawkish July FOMC minutes, solid labour- market data, strong services PMI and energy- inflation risks from the Middle- East fuelled a sharp yield rebound back to 4.74%. Real rates rose in tandem, exerting valuation pressure and prompting gold profit- taking. Treasury rates traced a pattern of early- week highs, policy- driven mid- week plunge and data- fueled late- week recovery. Gold price action closely tracked long- dated real- rate moves, characterised by policy- fuelled breakout followed by yield-induced retracement.

(3) Impact on Gold

A lower- average but volatile U.S. dollar alongside dramatic real- rate swings boosted gold via lower opportunity costs and supported its major breakout. Subsequent economic resilience and hawkish policy expectations lifted yields and triggered partial dollar recovery, limiting further upside and resulting in high - level consolidation after sharp gains.

4) Geopolitical Tensions & Safe-Haven Demand

(1) Geopolitical Tensions

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

➢ The standoff deepened, shifting toward economic warfare and maritime blockade. The U.S. imposed sweeping, indefinite maritime blockades and economic sanctions. On August 22, Iran warned that any country complying with U.S. restrictive measures would be deemed an adversary.

Commercial shipping through the Strait of Hormuz remained near standstill, with vessel traffic at merely 4% of pre- crisis levels. Diplomatic talks have stalled, keeping crude- oil geopolitical risk premia elevated and reviving market focus on energy- driven inflation risks.

- Intercepts and attacks in the Gulf of Oman and Red Sea have become recurrent. Tail- risk escalation remains present. Higher oil prices erode some of the disinflationary progress and cap gold's upside potential.

2) Progress of the Russia-Ukraine Conflict

Fighting remains positional, characterised by persistent drone and long- range missile strikes without major territorial breakthroughs. Market sensitivity to Ukraine- related risk has diminished; only large-scale air strikes generate short- lived safe- haven pulses with limited lasting impact on precious-metals pricing.

(2) Impact on Gold

While the Strait of Hormuz crisis offers safe- haven support for gold, higher oil prices risk entrenching inflation stickiness and lifting Treasury yields, creating countervailing bearish pressure. Geopolitics generate intraday volatility but have not overridden gold's high- range consolidation trend.

5) Tariff Turmoil Drives Gold Swings

① Tariff & Trade Policy Developments

- **U.S.- China Tariffs:**

Section 301 tariffs remain in force. The USTR commenced the four- year statutory review of Section 301 duties. Tariff- exemption applications keep coming in yet approval rates stay low, sustaining imported-inflation pressure. No new tariff adjustments were announced this week, and agricultural- trade negotiations remain deadlocked without a clear timeline. Recently implemented drone- related tiered tariffs are being digested by markets; China publicly criticised these discriminatory measures for disrupting global supply chains.

- **Global Tariff Landscape:**

Multiple WTO dispute consultations were filed against U.S. unilateral tariffs, reflecting deepening global trade fragmentation. No major new U.S. tariff measures were rolled out this week; markets focus on potential rate changes from ongoing policy reviews.

- **U.S.- Canada Trade Breakdown:**

Trade negotiations collapsed at the final stage on August 21. On Saturday August 22, President Trump imposed 50% tariffs on approximately USD 20bn of Canadian imports. Canadian Prime Minister Carney announced reciprocal counter- measures, sharply escalating bilateral trade frictions.

② Impact on Gold Prices

Existing tariffs and trade barriers raise import costs and embed inflation persistence, constraining gold's near- term upside. Meanwhile, heightened trade uncertainty bolsters safe- haven demand and establishes a price floor, creating a dynamic of near- term headwinds offset by medium- term support. Trade policy acted as a secondary factor this week; gold was primarily driven by Treasury- market dynamics, U.S. macro data and geopolitics.

6) Gold Market Observation

1. Markets may not buy the buybacks - WGC

Background: Amid surging long- dated Treasury yields, the U.S. Treasury scaled up long- bond buybacks. Yields and the U.S. dollar fell, and gold jumped 3% intraday. Mohamed El- Erian commented that while this is not formal YCC (Yield Curve Control), it represents a step toward such policy.

(1) Treasury supply- demand dynamics: Who will absorb U.S. government debt?

Treasury yields reflect growth, inflation and monetary- policy expectations. Markets now focus heavily on tensions between expanding debt supply and investor absorption capacity.

- Supply side: Persistent fiscal deficits expand new issuance while maturing outstanding debt requires refinancing, lifting overall supply pressure.
- Demand side: Traditional buyers are retreating. Foreign official entities diversify reserve allocations; overseas private investors are attracted by higher yields elsewhere. Banks face balance- sheet constraints. AI- related corporate issuance competes for capital. Price- sensitive private investors including hedge funds hold a growing share of Treasury securities.

Against high inflation and worsening fiscal outlooks, investors demand higher compensation for holding long- dated bonds. Markets no longer assume excess Treasury supply will be effortlessly absorbed; supply- demand balance has become a core pricing driver.

(2) Policy toolset: Limited policy options

- Treasury buybacks represent marginal fiscal intervention rather than QE (Quantitative Easing). Alternatives such as adjusting the eSLR framework, yen- intervention- style anti- sellback guidance and stablecoin- related policies are stop- gap fixes without fundamental solutions.
- A new round of QE (Quantitative Easing) carries severe credibility costs and is unlikely. Rate hikes could theoretically cool inflation and compress term premium (extra compensation for long- bond uncertainty), yet political constraints reduce their feasibility.
- Consequently, YCC (Yield Curve Control) emerges as a potential alternative, under which the Fed would cap Treasury yields via market intervention.

(3) Why YCC is being informally debated

- YCC (Yield Curve Control) is not purely theoretical. It was discussed in the U.S. during the 1940s and 2020 COVID crisis; Japan and Australia have implemented it historically. Japan and Australia deployed YCC to prevent excessively low yields. In the current U.S. context, YCC would target containing yield increases.
- QE (Quantitative Easing) is a quantity- focused tool requiring large- scale balance- sheet expansion. YCC (Yield Curve Control) can operate intermittently without massive balance- sheet growth and can be framed as a liquidity- stability measure, granting policymakers plausible deniability regarding stimulus intent.

(4) Gold implications: Mixed signals with net bullish bias

U.S. monetary policy is only one driver of gold; YCC (Yield Curve Control) would not guarantee a bullish outcome. Even so, the report argues bullish forces would likely dominate and boost gold allocations.

- **U.S.- dollar weakness:** YCC would pressure the dollar lower, as already witnessed during the recent buyback episode. Currency markets would bear much of the adjustment burden.
- **Financial repression:** Artificially anchored yields create uncertainty over equilibrium rates in the absence of intervention. As seen in Japan's market episodes, heavy selling is not required; evaporating buying interest alone can trigger sharp bond- market moves. Gold would draw support not merely from low yields, but from the knowledge that yields are administratively suppressed.

Lower real rates (nominal yield minus inflation expectation; gold exhibits inverse correlation with real rates): YCC caps nominal- yield upside while inflation expectations rise, depressing real returns on

(5) **Treasuries and reinforcing gold's valuation support.**

Bearish caveat: If markets view YCC as credible and temporary, bond- market dysfunction eases and risk appetite improves. Gold could weaken even amid lower real rates. U.S. historical experience from the 1940s suggests yield- suppression regimes are hard to sustain and eventually clash with inflation pressures and central- bank- independence concerns. Gold could not trade freely during that historical YCC episode, and gold- mining equities are imperfect proxies. From a long- run perspective, elevated global debt levels remain a core pillar of gold demand. Policies that merely contain financing costs without resolving deficit- debt fundamentals should continue to benefit gold over time.

III. Outlook & Key Catalysts

➢ **Next Week's Focus:**

Mon Aug 25: Dallas Fed Manufacturing Index

Tue Aug 26: U.S. July Durable Goods Orders (flash), Conference Board Consumer Confidence Index

Wed Aug 27: U.S. July PCE Price Index, Personal Income & Spending

Thu Aug 28: Initial Jobless Claims, University of Michigan Consumer Sentiment (final)

Fri Aug 29: Jackson Hole Economic Symposium kicks off with multiple Fed officials delivering speeches

Market Focus: The July PCE inflation print and Jackson Hole Symposium constitute next week's two major focal points. PCE is the Fed's preferred inflation gauge and will directly alter September- hike probability pricing. Policymaker remarks at Jackson Hole will deliver fresh monetary- policy signals and drive volatility in the U.S. dollar and Treasury yields. Durable- goods orders and jobless claims will offer further reads on U.S. economic momentum. Persistent tail risks persist from U.S.- Iran geopolitics; shifts in sanctions or Strait- of- Hormuz shipping conditions may trigger oil- price swings and reshape inflation and rate expectations, alongside ongoing global- trade- fragmentation risks. Heightened short - term price volatility for gold should be anticipated.

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