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# Use price falls to make sure you have enough gold

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**The ongoing recovery in risk appetite has seen the price of gold plateau. The recent tariff de-escalation might also potentially tarnish gold's allure, especially as a hedge against spikes in risk. We think it is advisable to use any dips in the price of gold to ensure that portfolio allocations to gold are optimal.**

After an aggressive run up in the wake of the "Liberation Day" tariffs announcement, the price of gold's upward climb seems to have petered out. A key driver of this has been signs of tariff rapprochement, most recently cemented between the US and China. The USD has also consequently seemed to have found its feet—after falling 5.3% from 2 to 21 April, the USD index (DXY) has rebounded around 3.5%—a stronger USD tends to weigh on the gold price. Meanwhile, the S&P 500 is back to levels before 2 April and the VIX equity volatility index is back to March levels, suggesting that risk appetite has recovered meaningfully. Does the US-China trade deal portend an end to gold's thus-far enduring luster?

Notwithstanding the receding of tariff risks, the Trump administration's controversial policies (and U-turns) and unorthodox communication style should see risk appetite ebb and flow more frequently than in the past. Gold's fundamental attraction though remains unchanged, and we continue to think that it should remain a key component of any well-diversified portfolio, especially in the current unpredictable environment. We would use the current softness in the price of gold to ensure that portfolio allocations to gold are optimal.

**Gold demand looks set to stay robust for the medium term.** The World Gold Council's 1Q25 report indicates that gold's demand profile remains structurally unchanged. Central bank demand, albeit plateauing, remains a key constituent. We expect that this should at least persist in the medium term, given the recent controversial tariff policy might already have undermined confidence in the reliability of US policymaking in a sustained fashion. Diversification out of the USD – and at least partially into gold – should continue, if not accelerate. Demand from gold ETFs also picked up sharply in 1Q25

to 552 metric tons (mt), which has exceeded our expectations. The more than doubling year over year aligns well with our view that ETF demand should remain strong through 2025. Supply is unlikely to be able to be materially increased despite the higher price.

**Near-term USD resilience could taper off medium term.** We continue to expect the positive tariff headlines to prove supportive for the USD in the near term. A stronger USD raises the cost of gold in currencies that have weakened against the USD, which in turn tends to cool overall demand for gold. The reduced uncertainty over tariffs also reduces the upside risk to inflation, but market expectations are still for the US Federal Reserve to hold off on policy rate cuts to September. This too might help support the USD in the near term.

Further out however, we expect any USD strength to be temporary given the structural demand-supply imbalance. The start of Fed cuts is likely to coincide with other major central banks ending their rate-cutting cycle around the same time. We anticipate the USD weakening over the remainder of the year as interest rate differentials start to move against the USD. In particular, we expect the USD to start falling against the EUR, JPY, and AUD in 3Q25, through 1Q26.

**Hold on to gold; sell the USD.** Given that our medium-term view remains USD-negative, we would use any rebound to reduce or hedge USD exposure. We favor selling the USD during near-term rallies, which we expect to be somewhat muted. In our opinion, diversification out of the USD could be paired with a reallocation into EUR, JPY, and the AUD. We see the EURUSD rising to 1.18 in 1Q26, and the USDJPY falling to 138 then. We favor selling AUDUSD downside risks below 0.62.

Given the potential near-term USD resilience and risk-appetite-driven volatility in the price of gold, we would use the elevated volatility to sell price downside in gold at USD 3,150/oz or below. Our gold price expectation remains at USD 3500/oz in our central scenario, and USD 3800/oz in an upside (risk-averse) scenario. We would also suggest a mid-single-digit percent weighting of diversified USD-denominated balanced portfolios to gold as a hedge against policy and geopolitical uncertainty.

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