

FX Thoughts

3 October 2025

Gold Breaks Out

Prices of gold rose sharply by around 48% YTD as it surged to its all-time high of near \$3,900 this week, driven by a combination of factors.

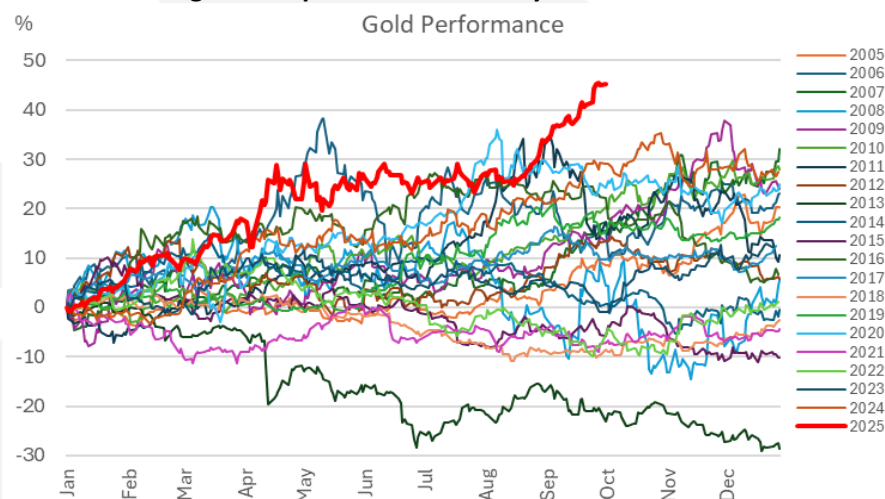
US government shutdown is a tailwind for gold prices. A look back at past episodes suggest that the duration of the shutdown can vary and the impact on asset classes may not be uniform. The last shutdown in 2018-19 was the longest (over 30 days) in over 40 years, and gold was up nearly 4%. While the underlying bias for gold remains bullish, we do caution that any surprise twist, including a shorter than expected shutdown may potentially see the exuberant run-up in gold correcting lower.

While positioning indicators is starting to look stretched, it is not yet at extreme levels. Our 25-week z-score stands at 1.5 sd. There may still be room for upside, but we caution against any excessive complacency in the near term. Nevertheless, structural drivers supportive of gold prices remain intact. Buy dips preferred.

Gold continues its run-up into uncharted territories

Gold has surged to fresh record highs near \$3,900, breaking decisively out of its multi-month consolidation range of \$3,200 to \$3,500 — a band that had held since April. The latest rally underscores gold's unique role as both a hedge against geopolitical stress and a store of value in times of policy and institutional uncertainty. Several overlapping factors have been fuelling the recent rally:

Gold: The strongest YTD performance in 25 years



Source: Bloomberg (YTD as of 2 Oct), OCBC Research

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Renewed geopolitical concerns

On the geopolitical front, Russia-NATO relations have deteriorated following Russia's violations of Polish and Estonian airspace. Additionally, President Trump's speech at the UN General Assembly indicated that any prospects for a Russia-Ukraine ceasefire remain distant. Trump stated that with adequate support, Ukraine could reclaim the territories lost to Russia. He also showed a greater willingness to supply Kyiv with long-range cruise missiles and urged NATO to shoot down Russian aircraft violating alliance airspace. While it is unclear whether these remarks reflect a genuine policy shift or a negotiation tactic, they represent some of the strongest rhetoric from Trump since his meeting with President Putin in Alaska.

Fed resuming easing cycle

The Fed has resumed its rate-cutting cycle with a 25bp cut at Sep FOMC. Fed's dot plot guided for 2 more cuts for 2025 and for 2026, another 1 more cut, in line with our house view. With the Fed resuming its rate cut cycle, yields are expected to fall, further enhancing gold's appeal. Historically, gold has tended to outperform during easing cycles.

Past episodes of Fed cut cycle Post-2000	% Change			
	Gold	Silver	S&P 500	DXY
Rate Cut Cycle (Jan 2001 to Jun 2003) Cumulative cut of 550bps	27.4	-1.7	-25.5	-13.8
Rate Cut Cycle (Sep 2007 to Dec 2008) Cumulative cut of 500bps	24.5	-11.7	-41.1	1.8
Rate Cut Cycle (Jul 2019 to Mar 2020) Cumulative cut of 225bps	11.8	3.3	-15.7	1.4
Rate Cut Cycle (Sep 2024 - Dec 2024) Cumulative cut of 100bps	3.6	0.6	3.9	6.6

Note: % change is measured from the prior month's close to respective rate cut cycle end to capture anticipation ahead of the cut.

Source: Bloomberg, OCBC Research

Tariffs fuelling stagflation concerns

The latest round of tariff announcements from Washington — including a 100% tariff on branded or patented drugs, 50% on kitchen cabinets and bathroom vanities, 30% on upholstered furniture, and 25% on heavy trucks — added another layer of complexity to the inflation-growth dynamics. These tariffs risk raising input costs, disrupting supply chains, and passing through onto consumer inflation.

This rekindles stagflation fears, a macro environment that historically benefits gold given its dual appeal as both an inflation hedge and a recession hedge.

Threats to Fed independence

In recent months, the Trump administration has taken aim at the Fed, from attempts to alter the composition of the Federal Reserve Board of Governors to direct commentary on the appropriate path of interest rates to even labelling Fed Chair Powell as “Mr Too Late” have raised concerns that policy decisions may become more politicised. This can undermine confidence in the Fed’s ability to act as a credible, inflation-targeting central bank. In such an environment, gold’s role as a hedge against policy credibility risk gains renewed importance.

US government shutdown

US government shutdown, triggered by repeated impasses over budget appropriations and debt ceiling debates, injects another layer of uncertainty into the near-term outlook. Broadly speaking, past episodes of shutdown have coincided with safe-haven demand and a dip in USD but not all government shutdowns are the same. Some are longer like the last one in 2018 over 2019 while other shutdowns were shorter – like 3 days in early 2018. The duration of the shutdown can vary and the impact on asset classes are not entirely uniform. The last shutdown in 2018 crossing over to 2019 (during Trump presidency 1.0) was one of the longest (over 30 days) in modern history. And during that period, gold was up nearly 4%. USDJPY, USDSGD was down 1.5%; DXY was down over 1%. While the underlying bias for gold remains bullish, we do caution that any surprise twist, including a shorter than expected shutdown may potentially see the exuberant run-up in gold correcting lower.

Asset price implications from past episodes of US government shutdown

Episodes of US Government Shutdown	Days	USDSGD	DXY	USDJPY	USDCHF	Gold	Asiadollar Index
Wall border funding dispute (Dec 2018 - Jan 2019) Trump (Republican)	35	-1.49%	-1.20%	-1.50%	0.01%	3.84%	1.33%
Immigration policy and Budget dispute (Jan 2018) Trump (Republican)	3	-0.14%	-0.19%	0.14%	-0.10%	0.16%	-0.02%
Affordable Care Act dispute (Sep 2013) Obama (Democrat)	16	-1.04%	0.23%	0.54%	0.83%	-4.07%	0.60%
Budget dispute on spending levels (Dec 1995 - Jan 1996) Clinton (Democrat)	21	0.54%	0.20%	3.93%	-0.04%	2.62%	No Data^
Budget dispute over Medicare, education and environment (Nov 1995) Clinton (Democrat)	5	0.05%	-0.08%	1.29%	-0.05%	-0.56%	No Data^
Average		-0.42%	-0.21%	0.88%	0.13%	0.40%	0.64%

Note: ^ Bloomberg Asia dollar index only has data available after Jul 2006

Source: Bloomberg, OCBC Research

Rising political uncertainties abroad

The global political calendar has turned more active in the months ahead. In Europe, the collapse of the French government over budgetary disagreements underscores the fiscal strains confronting high-debt economies, while the Netherlands faces a snap election on 29th Oct 2025 amid concerns over immigration, living costs and housing. In Asia, domestic political uncertainties in Indonesia and Thailand add to regional risk premia. Political risk has historically been a reliable catalyst for gold inflows, as investors seek protection against policy unpredictability and currency volatility.

Safe-haven demand amid renewed geopolitical concerns

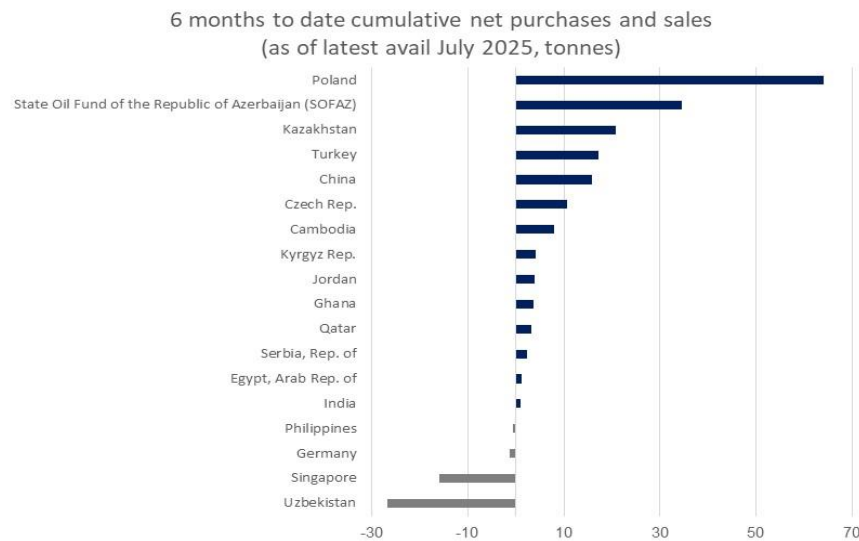


Source: Bloomberg, OCBC Research

Structural factors continue to underpin constructive outlook

Looking on, several structural supports remain in place. Strong official-sector demand, led by China and other EM reserve managers appear likely to continue. China continued to buy gold for the 10th consecutive month, taking its gold holdings to over 2,300 tonnes in Aug 2025. From a flow perspective, Poland remains the largest net buyer of gold in 2025 with over 67 tonnes YTD, while Azerbaijan, Kazakhstan, Turkey remain consistent buyers.

Central Banks continue to add to gold purchases

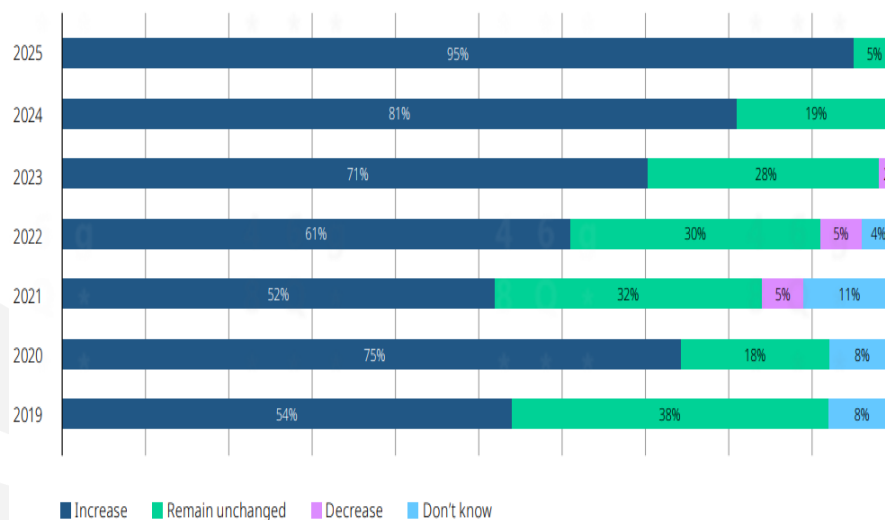


Note: Germany, SOFAZ, Cambodia data as of Jun 2025

Source: World Gold Council, IMF, OCBC Research

The World Gold Council's Central Bank Reserves Survey (June 2025) report noted that 95% of respondents believe that official gold reserves will continue to increase, up from 81% last year – when asked about their expectations for how global central bank gold reserves will change over the next 12 months. Broader portfolio demand for gold as a reliable store of value and hedge against both inflation and geopolitical risks should also help underpin the constructive outlook.

How do you expect global central bank gold reserves to change over the next 12 months?



Note: 2025 base: all central banks (73); advanced economy (15); EMDE (58). 2024 base: all central banks (69); advanced economy (24); EMDE (45)

Source: World Gold Council, YouGov

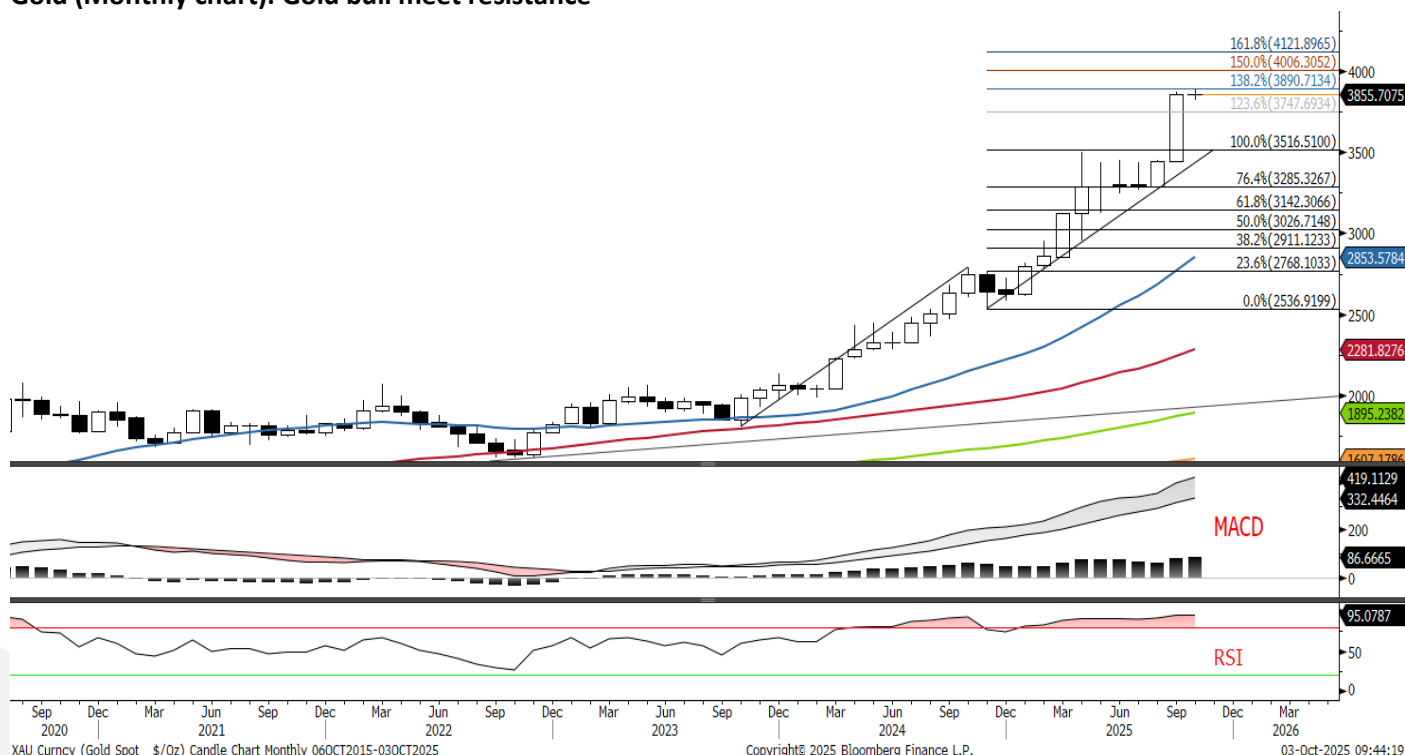
XAU Technical Outlook

Gold last seen at 3,860 levels. Underlying momentum remains bullish while RSI is in overbought conditions. Resistance at 3,890/3,900 levels (138.2% fibo extension), 4,006 (150% fibo ext). Support at 3,720 (21 DMA) and 3,520 (50 DMA).

A short-term corrective pullback is not ruled out, especially if the US government shutdown ends quickly. The sharp run-up in a short period of time (~ 7% in 2 weeks) and long positions seen in CFTC, suggests some risks of overbought conditions. In the event of any surprises or earlier than expected resolution from Congress on ending the shutdown earlier, then some of this run-up in gold may moderate in the interim.

That said, the structural drivers are still supportive of gold prices. Strong official-sector demand, Fed embarking on rate cut cycle and broader portfolio demand for gold as a reliable store of value and hedge against both inflation and geopolitical risks should help underpin the constructive outlook. A layering-in exposure on pullback remains our preferred stance.

Gold (Monthly chart): Gold bull meet resistance

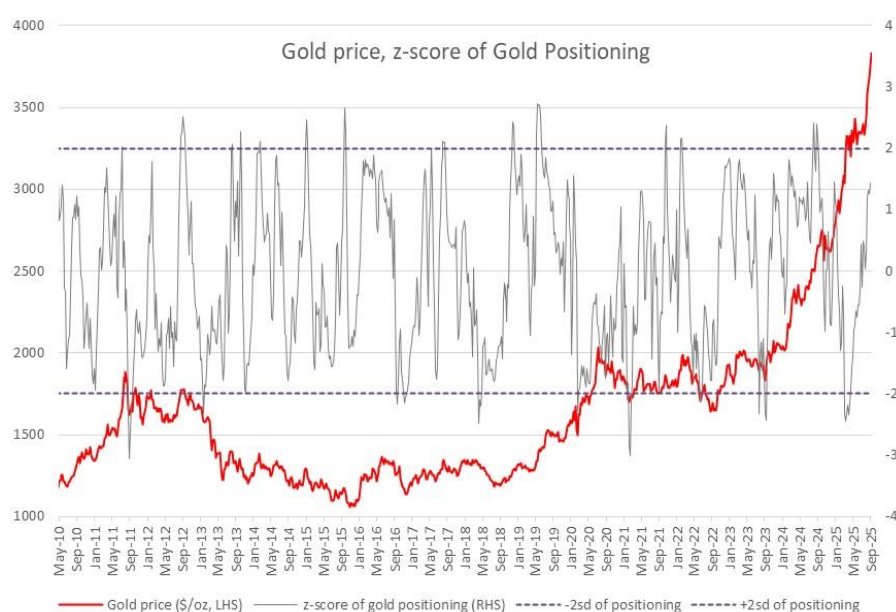


Source: Bloomberg, OCBC Research

Market positioning yet to signal extreme overbought conditions

We look at how stretched gold position may be via the 25-week z-score on CFTC positioning. Historically, gold longs at extreme levels (i.e. +2 or -2 sd) typically see corrective pullback. For now, z-score is getting closer to near overbought conditions at +1.5 sd but has yet to signal extreme overbought.

Due to a potential lack of COT CFTC data going forward (as US government shutdown delays data releases) to provide guidance, we caution against excessive complacency.



Note: z-score calculated based on 25w positioning on rolling basis. sd refers to standard deviation

Source: CFTC as of 23 Sep, Bloomberg, OCBC Research

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