# Commodities Strategy

## Gold's long term positive drivers remain intact after near term consolidation

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- Last Friday, in our latest monthly report dated 9th May 25, we raised our positive gold forecast further to USD 3,600 / oz by 1Q26. For more details, kindly refer to pages 18 and 19 of the "Monthly FX & Rates Strategy: Sell! Dollar! Sell!".

- The timing of last Friday's forecast update for gold proved to be less than opportune, given that gold subsequently suffered heavy selling at the start of this week, following news of the de-escalation of trade conflict between US-China and the temporary 90-day reprieve of both reciprocal and retaliatory tariffs.

- This latest piece expands on the discussion on gold from last Friday's forecast update and takes note of the near term sell-off and technical consolidation. Overall, we reiterate that long term positive drivers for gold like safe haven appeal and central bank allocation remain intact. However, we need to acknowledge the near term technical consolidation amidst the sell-off.

- As such, we lower our gold price forecast for 2Q25 to USD 3,200 / oz from USD 3,300 / oz previously. Forecasts for subsequent quarters are kept intact, i.e. USD 3,400 / oz for 3Q25, USD 3,500 / oz for 4Q25 and USD 3,600 / oz by 1Q26. Prevailing spot reference rate is USD 3,250 / oz.

### Gold's rollercoaster ride since Liberation Day to De-escalation Day

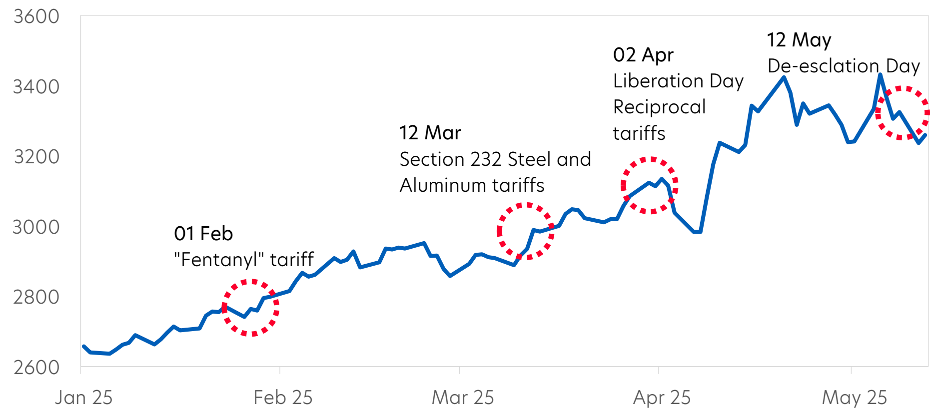
Indeed, gold has went through a rather volatile period over the past month. Liberation Day on 2 Apr first added "jet fuel" to gold's rally, resulting in a strong rally in gold from USD 3,000 / oz in early Apr to almost USD 3,500 / oz by around 22 Apr. This massive run-up towards USD 3,500 / oz was mainly triggered by the global short squeeze in gold as a result of the large flow of gold bullion into COMEX. Thereafter, gold encountered selling pressure which intensified at the start of this week, following the de-escalation of trade conflict between US-China. At the moment of writing, gold has been sold back down towards the USD 3,250 / oz level.



Right By You

Chart 1: Gold's strong rally since start of the year

Source: Bloomberg, UOB Global Economics & Markets Research




## Some short term consolidation is in order after strong rally. Technical analysis suggests significant support between USD 3,080 to USD 3,167 / oz

From USD 2,600 / oz at the start of the year, to its recent peak near USD 3,500 oz in mid-Apri, gold has rallied by as much as 1/3 in just about 4 months. Indeed, after such a strong run-up, some near term consolidation is in order. Our updated technical analysis suggests that this corrective pull-back in gold may find significant support between USD 3,080 and USD 3,167. For more details, kindly refer to Chart of The Day: Gold, date 13 May 25. The technical update is reproduced at the end of this report for easy reference.

## Long term positive driver of strong central bank buying amidst on-going safe haven demand remains intact

While we welcome the de-escalation of trade tensions between US and China (this has to be positive for the global economy), it is important to note that many technical uncertainties regarding the overall tariff backdrop remain. Most importantly, the 10% universal tariffs that US charges as a baseline remain in place, not just for China, but for other countries across the world as well. In addition, despite the de-escalation, China exports to the US are still subjected to various product specific Section 232 tariffs e.g. for steel, aluminum and auto parts as well as the initial "fentanyl" related tariffs from earlier in the year.

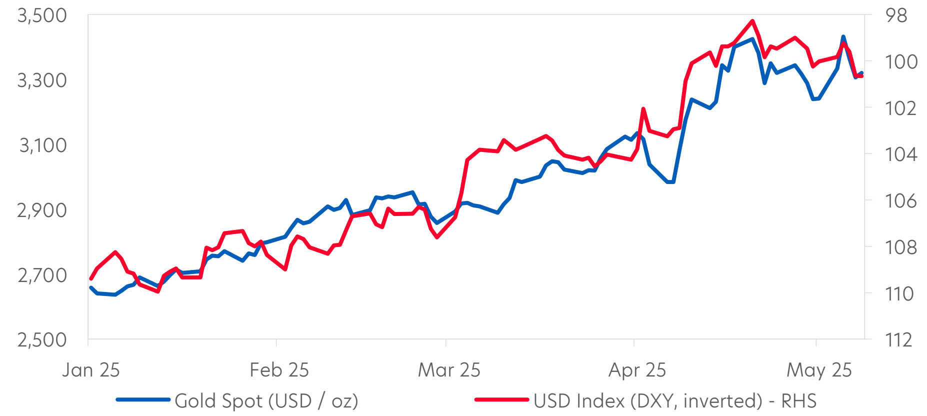
As such, longer term safe haven demand for gold is likely to stay intact. We continue to see on-going strong allocation into gold by global central banks on safe haven diversification needs, particularly from Emerging Market and Asian central banks. Specifically supporting this point of strong central bank allocation, latest flow data confirmed that the People's Bank of China (PBoC) continued to allocate into gold, adding a further 70,000 oz to gold across April. Various industry estimates suggest that the PBoC could have bought as much as 1 mio oz of gold over the past 6 months.

## Further anticipated USD Index (DXY) weakness and Fed rate cuts towards end of the year to be positive tailwind

Going forward, it would be unrealistic to continue to expect further strong stockpiling of bullion at such an intense pace that we had witnessed since the start of the year. However, consistently strong central bank allocation into gold and the anticipated USD weakness amidst the on-going De-dollarization theme will likely be the positive tailwinds supporting further gold strength. Specifically, our updated view of the USD Index (DXY) sees it entering a lower trading range below 100, anticipating further weakness towards 96.8 by 1Q26. The anticipated view of US Federal Reserve (Fed) rate cuts by 4Q25, coupled by further weakness in DXY towards the end of the year are positive tailwinds for gold. In addition, by July, return of worries of the unsustainable path of US outstanding debt coupled with renewed debate of US debt ceiling may reinforce the longer term safe haven demand for gold.

Chart 2: The weak DXY has been a positive tailwind for Gold

Source: Bloomberg, UOB Global Economics & Markets Research




## Demand for gold ETF remains the wild card

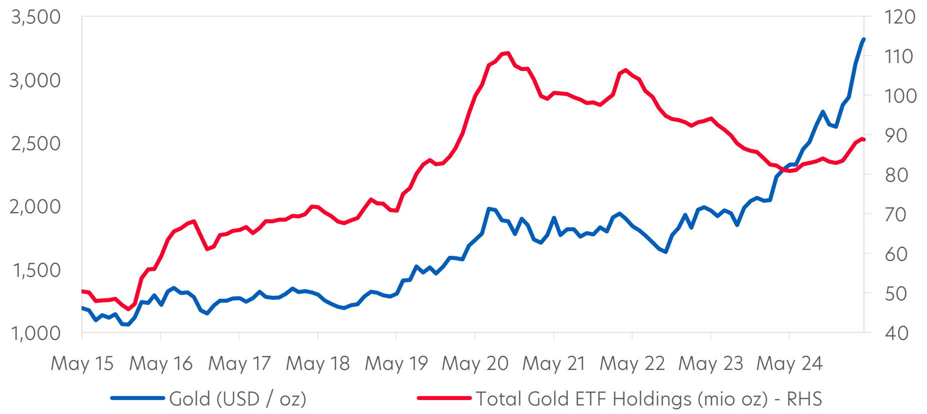
One key wild card going forward for gold remains that of investors' demand for gold ETFs. These remain uneven across different countries. While demand for gold ETFs have jumped in various Asian countries like China and South Korea, demand for gold ETFs in the US appears to be just taking off. The anticipated resumption of the Fed easing cycle in the later months of this year may be the necessary trigger needed for investors in the US to embrace gold ETFs.



Right By You

Chart 3: Demand for Gold ETFs remain the wild card

Source: Bloomberg, UOB Global Economics & Markets Research




## Maintain positive long term outlook but mute near term upside

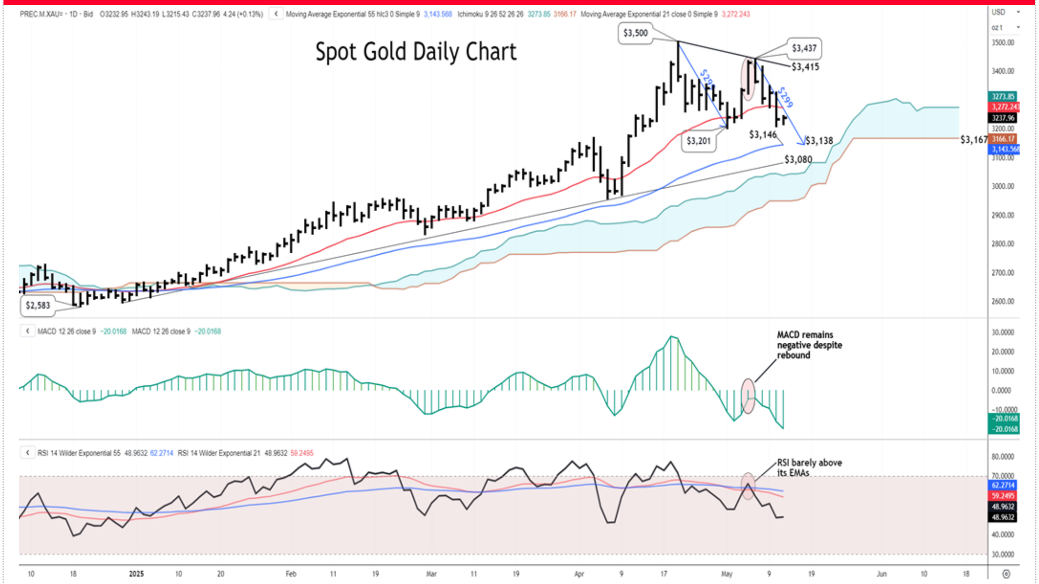
Overall, in view of ongoing safe haven demand, consistent strong allocation by central banks, supportive tailwind of anticipated weak USD and Fed rate cuts by end of the year, together with possible renewed gold ETF demand in the US, we maintain our positive long term outlook. However, acknowledging the near term technical consolidation following the heavy selling following the news of US-China trade conflict de-escalation, near term upside for gold could remain muted for the immediate quarter.

As such, we lower our gold price forecast for 2Q25 to USD 3,200 / oz from USD 3,300 / oz previously. Existing forecasts for subsequent quarters are kept intact, i.e. USD 3,400 / oz for 3Q25, USD 3,500 / oz for 4Q25 and USD 3,600 / oz by 1Q26. Prevailing spot reference rate is USD 3,250 / oz.

## Key risks to our positive gold view

Needless to say, further positive news flow that adds to the near term "feel good" rebound in risky assets reducing immediate safe haven needs is a clear negative for gold. These include perhaps a possible ceasefire between Russia and Ukraine. In addition, another key negative driver for gold is any unexpected messaging from the Fed that they are now more worried about the inflationary impact of trade tariffs, leading to markets starting to pare back rate cut expectations or even start to price in rate hikes instead.

**Spot gold: $3,233/oz**
The second leg of corrective pullback to find significant support between $3,080 and $3,167.




Source: LSEG Workspace, UOB Global Economics & Markets Research

After soaring to a record of $3,500 in mid-April, spot gold pulled back to $3,201. Although it then rebounded to $3,437 by the first week of May, the daily MACD remains in negative territory, indicating the lack of momentum. Moreover, while spot gold holds well above its EMAs, the daily RSI barely managed to rise above its own – again, indicating a lack of momentum.

Yesterday, on 12 May 2025, spot gold plummeted yet again. This time by 2.72% to close at $3,233. The increasing downward momentum suggests this is the second leg of the corrective pullback – the first leg being the drop from $3,500 to $3,201. Assuming equal magnitude for both legs, the downside target for the second leg is $3,138.

Notably, there are several strong support levels near to $3,138.
- The rising trendline from December last year, now at $3,080.
- The 55-day EMA, now at $3,146.
- The base of the daily Ichimoku cloud (forward-projected) at $3,167.

Given the corrective nature of this pullback, the support zone is expected to provide significant support, making a sustained break below less likely in the near term. On the upside, resistance is at $3,415; a break above $3,437 would indicate that spot gold is likely to trade in a range instead of pulling back further.

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