

Gold: Finding Its Way Back??

In a typical geopolitical shock — particularly one involving war — investors rush toward safe-haven assets. Safe havens are broadly understood in two forms: (i) gold, and (ii) US Treasuries, traditionally viewed as the safest asset of all. This time, however, something different played out: investors sold gold even as US Treasury yields moved higher. The likely explanation is that investors anticipated higher energy prices feeding through into inflation, prompting central banks toward rate hikes. As a result, investors favoured the higher yields on offer from US Treasuries over locking into gold's already extended bull run. Consequently, gold remained subdued from the start of the conflict through July, 2026.

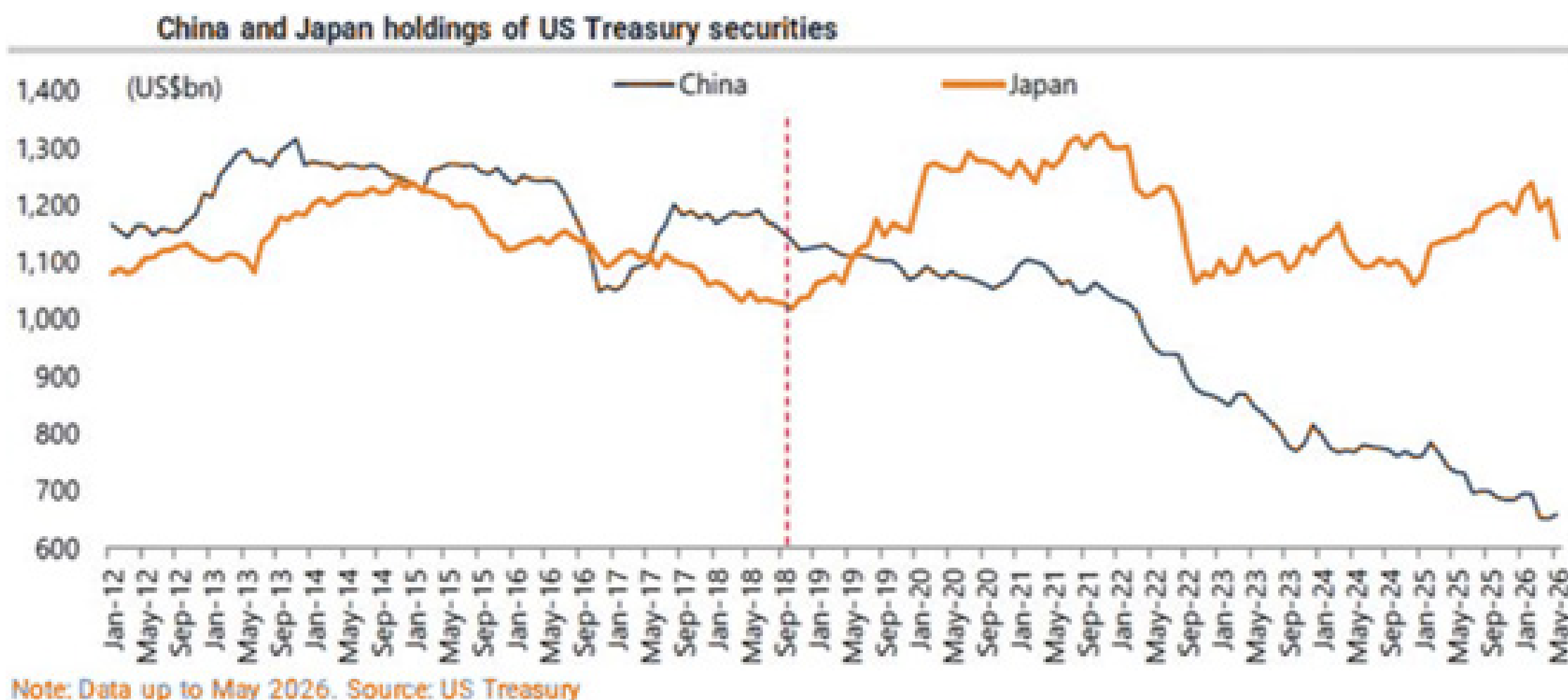
While gold pulled back from its peak, developed market yields have been on a rollercoaster of their own, driven by several factors. Chief among them is the fear of rising inflation, as the energy crisis has now persisted for six months, compounded by a growing sovereign debt burden and slowing growth rates. None of these are new developments, but two specific incidents have particularly reignited investor interest in gold.

US–Japan Pact to Safeguard the Japanese Yen

Japan has been struggling to arrest an accelerating slide in the yen, which has piled further pressure on an already fragile economy. This slide stems from wide interest rate differentials between Japan and other developed economies, heavy "carry trade" borrowing, and elevated energy import costs. To defend the yen, Japan has been selling dollars.

The natural question, then, is why the US chose to intervene. To free up funds to buy yen, Japan has been selling US government bonds — Treasuries. Many countries hold US bonds as a store of national wealth, but large-scale sales can push up the interest the US Treasury must pay on its debt.

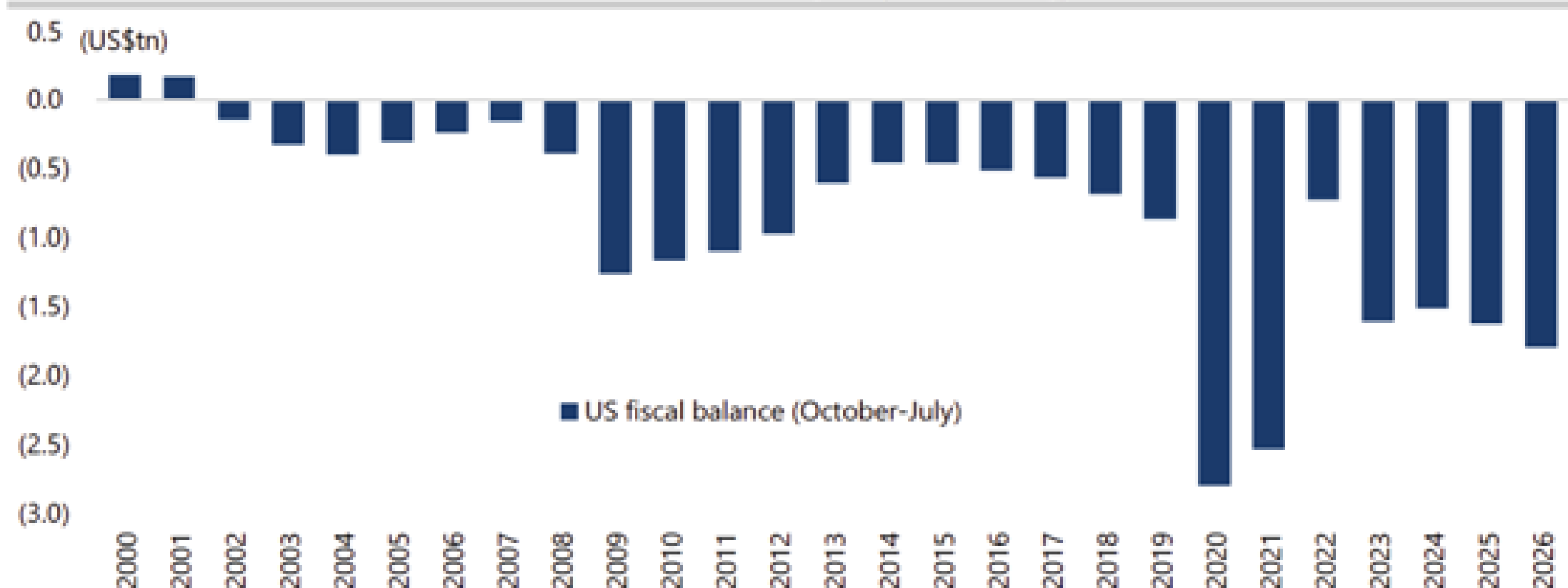
This, in turn, makes it more expensive for the US to borrow to fund government spending. The next natural question is why the Japanese yen specifically. Japan is the largest holder of US Treasuries, a position once closely rivalled by China, though that gap has widened considerably since 2018 as China and other central banks have increasingly favoured gold over Treasuries. In such a market, if Japan were to start selling as well, it could add further pressure on Treasuries.



US Debt Hits a Record High

Since the pandemic began, developed markets have gone all-in to keep their economies afloat, whether through fiscal expansion or central bank balance sheet growth. Over the past five years, developed markets have been on a spending spree, driving a substantial widening in fiscal deficits. The latest US fiscal data for July, 2026, released at the end of last week, shows continued deterioration as the earlier boost from tariff revenue fades from the data. The fiscal deficit for the first ten months of this fiscal year (October 2025 – July 2026) now stands at US\$1.799tn, surpassing the full-year FY25 (ended 30 September 2025) deficit of US\$1.775tn the highest ten-month deficit in five years, matched only by the pandemic period. The annualised fiscal deficit-to-GDP ratio also rose to 6.1% in July, 2026, up from 5.7% over the twelve months to June, 2026.

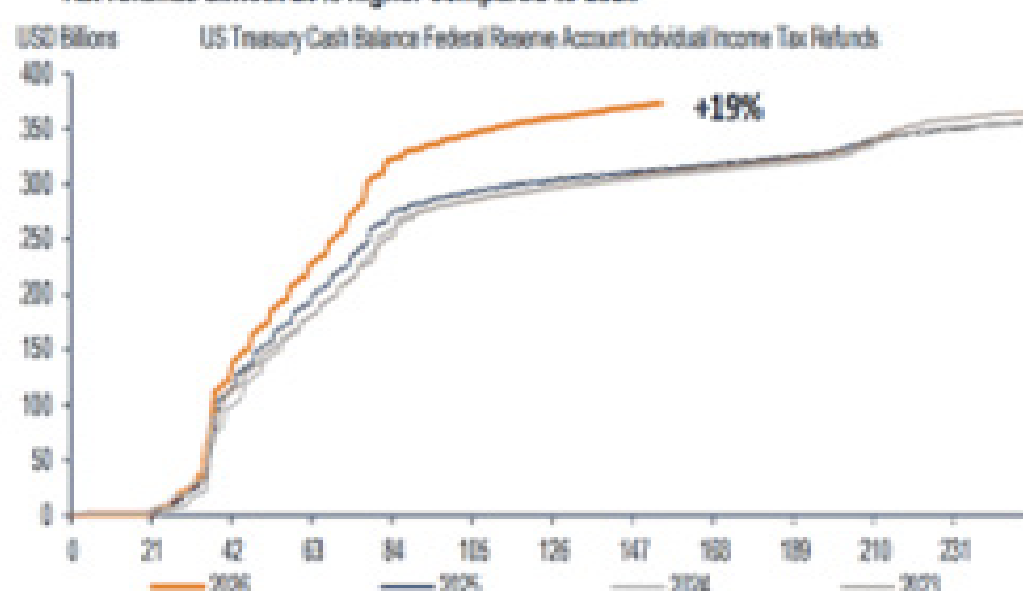
Exhibit 3: US fiscal balance for the first ten months of fiscal year (October-July)



Source: US Treasury

The impact of softer tariff revenue is easy to see. Total federal government receipts fell 1.3% YoY in July, 2026, with tax receipts (including tariffs) down 8% YoY in July, 2026 and 6.4% YoY over the past three months as tariff-related refunds weighed on collections. By contrast, total government outlays surged 21.7% YoY in July, 2026 and were up 10.7% YoY over the past three months, with national defence spending rising 19.9% YoY in July, 2026 and 10.9% YoY over the past three months. **Total US federal government debt has also just surpassed the US\$40tn milestone, with Treasury data showing total public debt up 7.8% YoY to US\$40.05tn.**

Tax refunds almost 20% higher compared to 2025

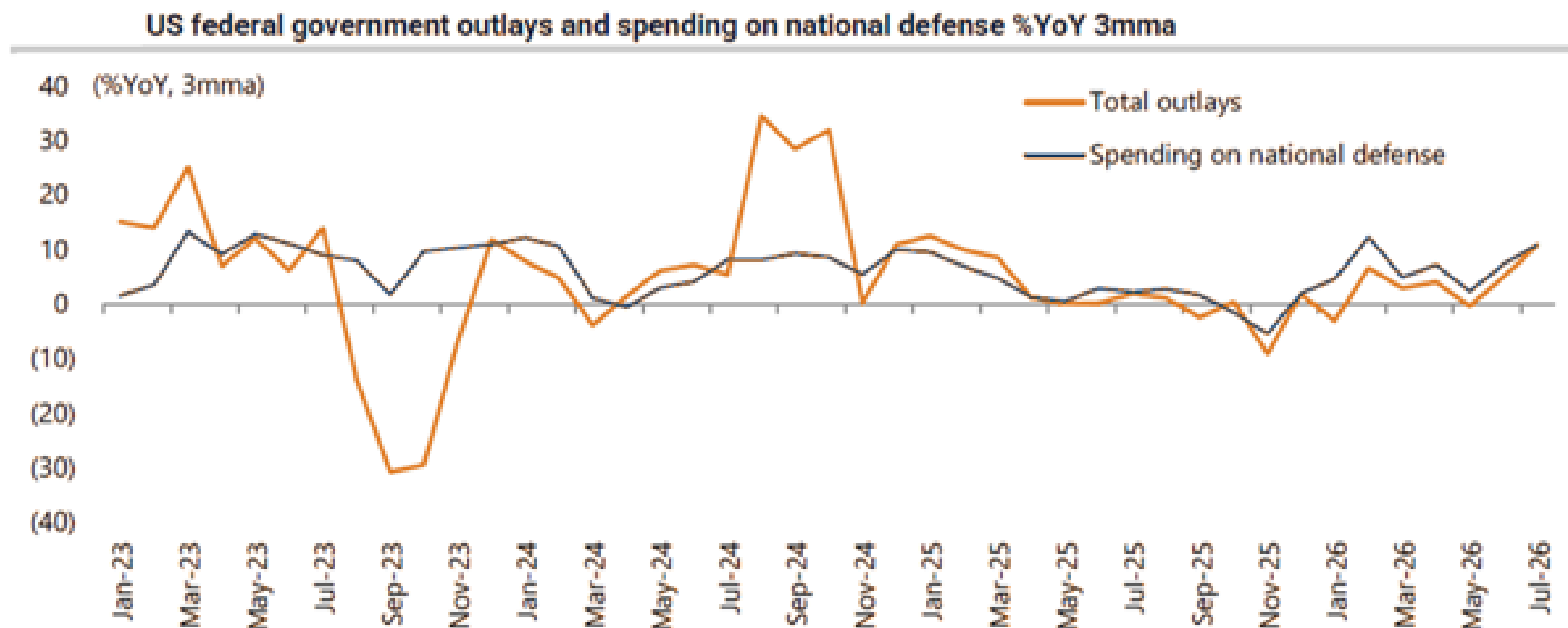


Corporate tax intake much lower after the OBBBA came into effect



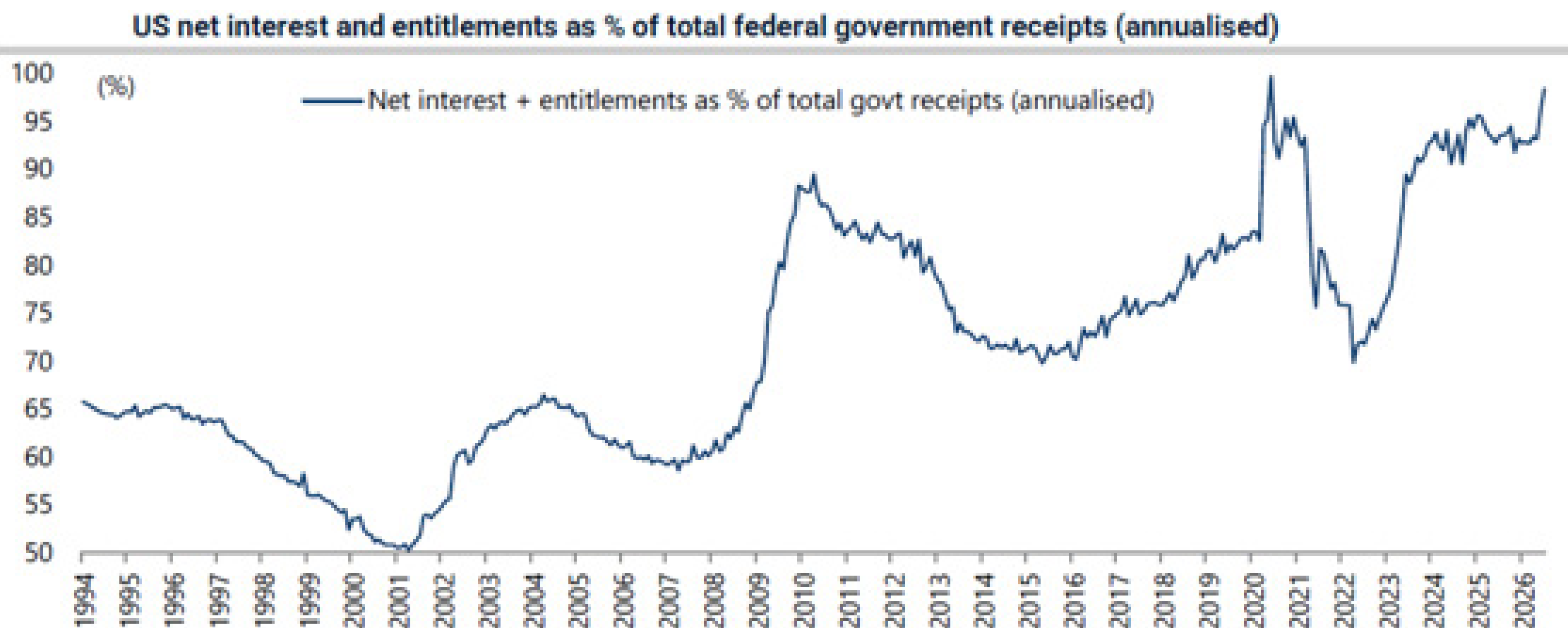
Source:- Bloomberg, Treasury Statement | *OBBBA- One Big Beautiful Bill Act

Data as on June 2026



Source: US Treasury, Bloomberg
Data as on July 2026

Bond markets are beginning to reckon with the consequences of the rich world's debt binge. More troubling still, over half of America's deficit now consists of interest payments on past borrowing, raising the risk of a vicious circle, in which rising yields feed bigger deficits, which in turn drive yields still higher.



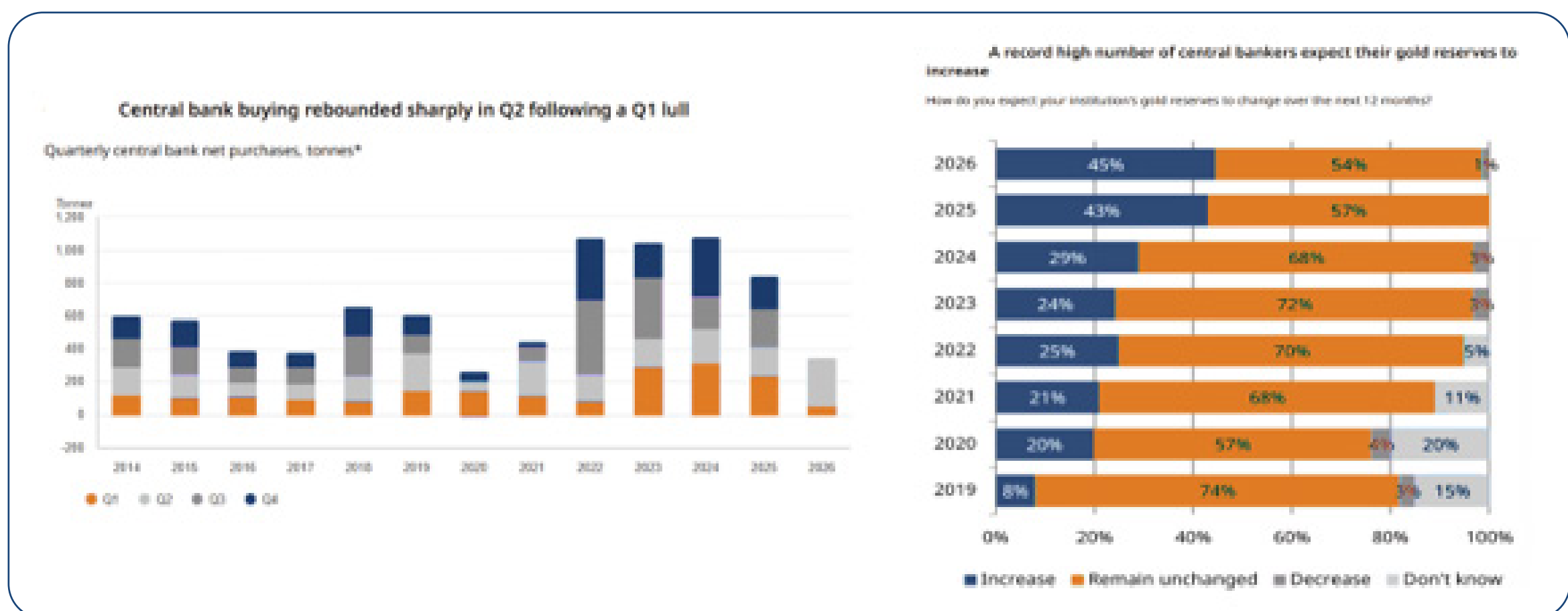
Note: Entitlements = Social security, Medicare, health spending and veterans' benefits.
Source: US Treasury
Data as on June 2026

Even as bond markets grow uneasy about these fundamentals, the US Treasury Secretary has upsized bond buybacks and signalled the potential for a further increase. Ordinarily, the Treasury's role is to keep bond markets orderly and liquid during periods of stress. Not to actively influence yields during calmer times. This has only deepened scepticism around the fundamentals underpinning bond markets.

Are Markets Looking at the Alternative Again?

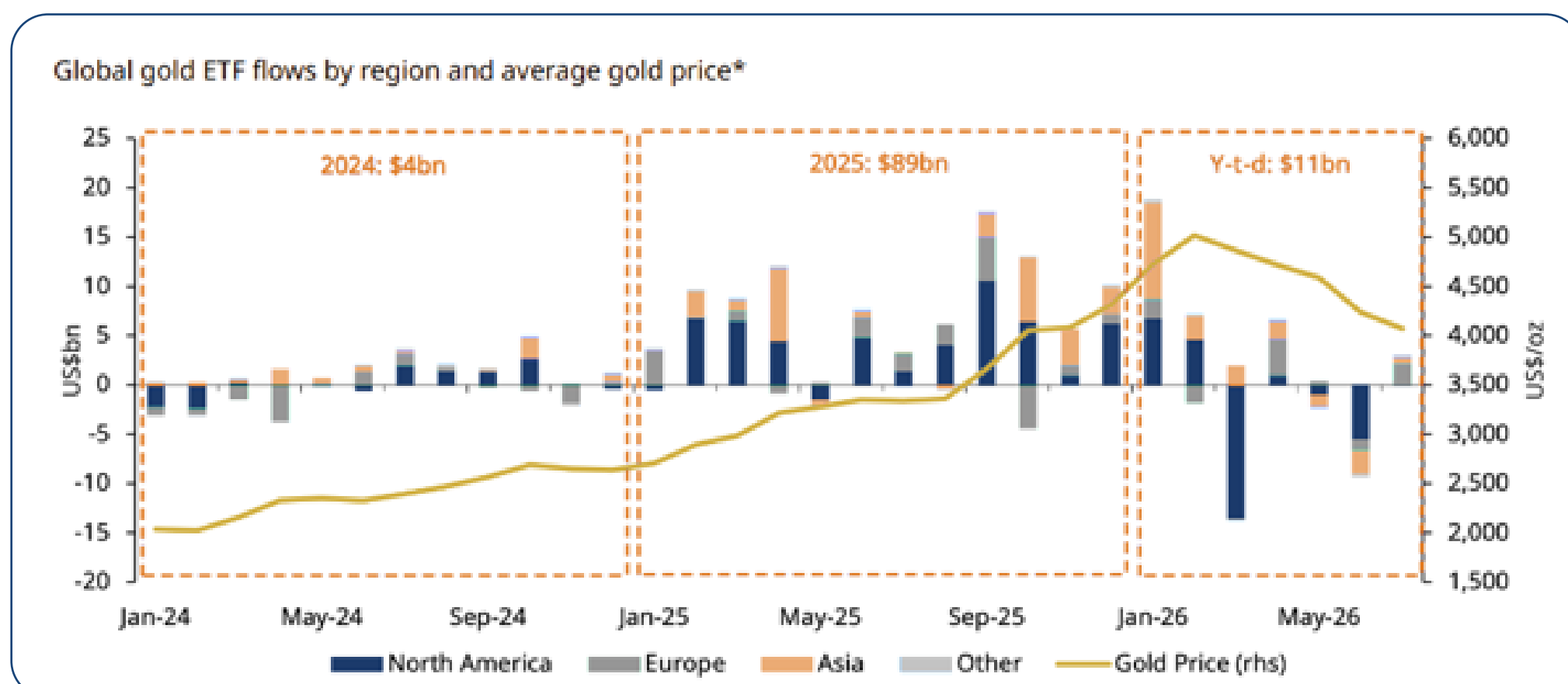
Amid these uncertainties, gold is making its way back into favour with both central bankers and investors as an alternative safe haven.

Central banks have reinforced this shift. After a lull in the first quarter, official-sector gold buying rebounded sharply in the second, continuing a pattern of strong net purchases that has held since 2022. Survey data points to more of the same ahead: a record 45% of central bankers now expect their gold reserves to increase over the next 12 months, up from just 8% in 2019, while only 1% expect a decrease – the lowest share on record. This looks less like a cyclical bounce and more like a structural shift in how reserve managers view gold.



Source: - World Gold Council
Data as on July 2026

Global gold-backed ETFs added US\$3bn in July, 2026, reversing two consecutive months of outflows. Inflows were broad-based, with every region contributing. Year-to-date, global gold ETF inflows have reached US\$11bn, equivalent to a 39-tonne increase in holdings. Asian-listed funds remained the largest contributor to global inflows over the period, followed by Europe, while North America remains in net outflow territory.



Source: - World Gold Council
Data as on July 2026

The Bottom Line

Gold's initial underperformance following the outbreak of conflict reflected a rational, if unusual, response: investors chose the higher yields on offer from US Treasuries over an already extended gold rally, on the view that energy-driven inflation would force central banks' hands on rates. The ground has since shifted. US-Japan tension over Treasury holdings, a record and rapidly widening fiscal deficit, a debt load now past US\$40tn, and a bond market growing visibly uneasy about its own fundamentals have together revived the case for gold as the safe haven of choice. This is no longer just a narrative, it is showing up in the data. Central bank buying has rebounded sharply, a record share of reserve managers plan to add to their gold holdings, and global gold ETFs have returned to sustained inflows after a prolonged quiet spell. Taken together, these signals suggest gold is reasserting its role as the primary hedge against all the risks.

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