

Gold faces a bond-market stress test as yields continue to rise

Saxo Bank · 2026-09-24 · English original

Key Points:

- Gold faces an increasingly hostile macro backdrop, with US Treasury yields, real yields and the dollar all rising as markets price inflation risks and tighter Fed policy.
- Higher yields remain a near-term headwind, but also raise longer-term financial risks, as elevated borrowing costs increase pressure on governments, companies and other leveraged parts of the financial system.
- Investment demand remains surprisingly resilient, with Bloomberg data showing global gold ETF holdings rising by almost 50 tonnes so far in September despite the jump in real yields.
- Chinese demand remains exceptionally strong, with imports exceeding 1,000 tonnes through August, already surpassing the total for the whole of 2025.

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Gold, and with that the semi-precious investment metals like silver and platinum, are once again being tested by some of its traditional macro headwinds. The sharp repricing across the US Treasury curve since the start of the Iran war has accelerated in recent days, lifting nominal and real yields while supporting a renewed recovery in the dollar. For a non-interest-bearing asset such as gold, that combination would normally represent a powerful incentive for investors to reduce exposure.

The scale of the shift is notable. Since late February when the US and Israel started attacks on Iran, US 2- and 5-year Treasury yields have risen by around 150 basis points, while the Fed funds rate implied for December this year has moved from around 3% to 4.25%, and December 2027 from 2.8% to 4.8%. At the same time, the 10-year Treasury yield has climbed above 5.1%, while the 10-year US real yield has jumped to around 2.78%, an 18-year high. Adding to the pressure, the Bloomberg Dollar Spot Index trades up around 1.5% this month, clawing back part of its August decline.

Taken together, these developments create a challenging near-term environment for investment metals. Higher real yields increase the opportunity cost of holding gold, while a stronger dollar raises the cost for buyers outside the US. The latest move therefore helps explain why gold, currently trading near USD 4,262 an ounce, is down around 4% this month.

The pressure has been even more pronounced among gold-mining equities, which have had to contend

with the combination of weaker bullion prices, broader equity-market weakness and rising operating costs. Diesel is a particularly important input for mining operations, and the surge in fuel prices has increased concerns about margin pressure, especially among smaller and more energy-intensive producers. Against this backdrop, the VanEck Gold Miners ETF has fallen around 3% (YTD: 7.9%) over the past two sessions (23 to 24 September), while the VanEck Junior Gold Miners ETF is down around 3.5% (YTD: +5.3%), highlighting the additional operating and equity-market leverage embedded in mining shares compared with physical gold.

However, the decline needs to be put into perspective. Gold remains comfortably above the June-July lows near USD 4,000, despite a substantial deterioration in its traditional macro drivers. More importantly, there has so far been little evidence of the kind of investor liquidation that would normally accompany such a sharp rise in real yields.

That resilience is perhaps the most interesting part of the current gold story. According to Bloomberg data, total holdings in gold-backed ETFs have risen by almost 50 tonnes so far this month. This continued accumulation suggests that a growing share of gold demand is being driven by investors who are less sensitive to the traditional opportunity-cost argument. Instead, their focus appears increasingly centred on wealth preservation, geopolitical uncertainty, fiscal sustainability and the desire to hold an asset outside the conventional financial system.

China provides another important example. Recently published data showed Chinese gold demand exceeding 1,000 tonnes during the first eight months of 2026, already surpassing the amount recorded during the whole of 2025. Together with continued central-bank buying, this highlights another important source of demand that is relatively insensitive to short-term fluctuations in US interest rates.

These flows underline the increasingly important distinction between rate-sensitive and non-rate-sensitive gold demand. For the former, the current environment is becoming increasingly difficult. For the latter, however, the very forces pushing yields higher may reinforce the argument for owning gold.

This creates something of a paradox. In the short term, rising bond yields and a stronger dollar are clear headwinds and could force gold lower. But the higher yields rise, particularly at the long end of the US curve, the greater the risk that something eventually breaks. Higher funding costs increase pressure on heavily indebted governments, companies and consumers, while also raising questions about the sustainability of fiscal deficits and the amount of government debt investors are being asked to absorb.

The weak USD 70 billion 5-year Treasury auction on 23 September offered another reminder of that challenge. Investors demanded additional yield to absorb the supply, reinforcing concerns that an increasingly indebted US government may have to pay progressively more to attract capital. Gold therefore finds itself caught between the immediate negative impact of higher yields and the longer-term financial and fiscal risks those same yields may create. In today's auction calendar we find the sale of USD 44 billion 7-year Treasury notes.

For now, price action will determine which force dominates. Gold's recent support low around USD 4,235 is the first level to watch. A break could expose the market to a deeper correction and potentially renewed focus on the June-July area around USD 4,000. Conversely, an ability to withstand the current onslaught from rising yields and dollar strength would underline the underlying resilience of demand.

The coming sessions therefore represent an important test. Gold may struggle while yields and the dollar continue higher, but the absence of meaningful ETF liquidation and exceptionally strong Chinese demand suggest investors are not abandoning the metal. Instead, some appear to be buying gold precisely because the financial stresses reflected in today's bond market are becoming harder to ignore.

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Source: <https://www.home.saxo/content/articles/commodities/gold-faces-a-bond-market-stress-test-as-yields-continue-to-rise-24092026>