

Golds real-yield divergence faces a sterner test

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Key Points:

- Gold's resilience is being tested as surging US real yields, a stronger dollar and a technical break below USD 4,230 trigger renewed selling.
- US 10-year real yields have reached an 18-year high near 2.85%, sharply increasing the opportunity cost of holding non-yielding gold.
- ETF and non-interest rate sensitive demand remain the key counterweight, as investors weigh near-term rate pressure against longer-term fiscal and financial risks from persistently high borrowing costs

In our latest precious metal update, we wrote that Gold faces a bond-market stress test as yields continue to rise. How much longer can the divergence between gold investment demand and US real yields continue? Today's price action suggests the relationship is facing an increasingly severe test.

Gold trades around USD 4,150, down 3.2%, after breaking below key support near USD 4,230 during Asian trading. Silver meanwhile has slumped 5%, facing additional pressure from concerns about slowing global growth. The weakness reflects a combination of surging bond yields, a stronger dollar and technical selling following the support break, potentially amplified by profit taking from Chinese investors ahead of the Golden Week holiday.

The pressure from rates is becoming increasingly difficult to ignore. US 10-year real yields have climbed to an 18-year high near 2.85%, while short-term interest-rate markets are now pricing another three 25-basis-point Fed hikes by next April. Traditionally, such a sharp increase in the opportunity cost of holding a non-yielding asset would be a major headwind for gold.

Yet the chart highlights an important divergence: gold ETF holdings have continued to recover despite the relentless rise in real yields. The key question is whether this demand can persist. Focus will therefore remain on ETF flows, particularly from investors who appear less sensitive to interest rates and more concerned about the financial consequences of persistently high borrowing costs. Higher yields may hurt gold through the traditional valuation channel, but they also increase fiscal strains and debt-servicing costs, potentially strengthening longer-term demand for gold as protection against financial and sovereign risk.

Funding stress could, however, become a short-term headwind. Signs of stress are emerging at the weaker end of US corporate credit as higher rates increase refinancing risks. Triple-C spreads have widened sharply, while the gap to B-rated debt has reached levels previously associated with major economic slowdowns. More broadly, the spread between high-yield US corporate bonds and US Treasuries widened another 12 basis points on Friday to 294 basis points, the highest since April.

Should these pressures intensify, rising margin calls, refinancing stress and broader liquidity requirements could force investors to raise cash. Gold's deep and highly liquid market makes it an

obvious source of liquidity in such circumstances. This creates an important short-term paradox: the financial and fiscal strains created by higher yields may strengthen gold's longer-term investment case, while an acute liquidity squeeze could initially trigger selling and weigh on prices.

For now, the sharp rise in real yields and today's technical breakdown suggest that gold's resilience is undergoing its toughest test yet.

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