CIO Perspectives

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ALTERNATIVES

Gold: Further Highs for Bullion as Trade War Fears Mount

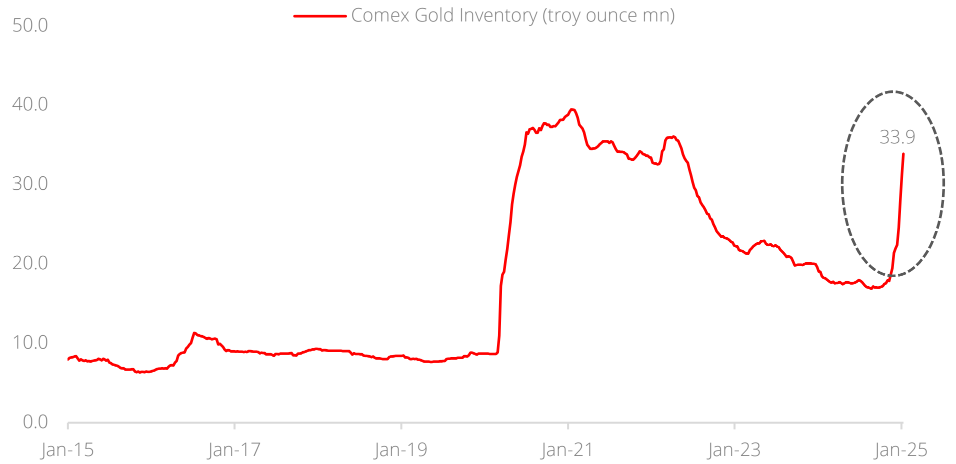
Key Points

- Gold hits a series of all-time highs amid global trade war fears; latest high of USD2,882/oz. achieved on 5 Feb
- Elevated global uncertainties in Trump 2.0 era have insulated gold from dollar and rate strength
- Rising US fiscal deficit and global fragmentation add to gold's long-term appeal
- Outlook for gold remains positive; upgrade 12M TP to USD3,330/oz.

Upgrade 12M TP to USD3,330/oz.. We published a report on 4 Feb covering how tariff fears sparked gold hoarding in New York, and how that consequently propelled bullion to a new all-time high. Since then, gold has continued its upward march on worries of a full-blown trade war, setting a new record of USD2,882/oz. on 5 Feb. This report aims to further build on the commentary from the previous report, as well as provide the basis for our 12-month target price, which we have revised upwards to USD3,330/oz.

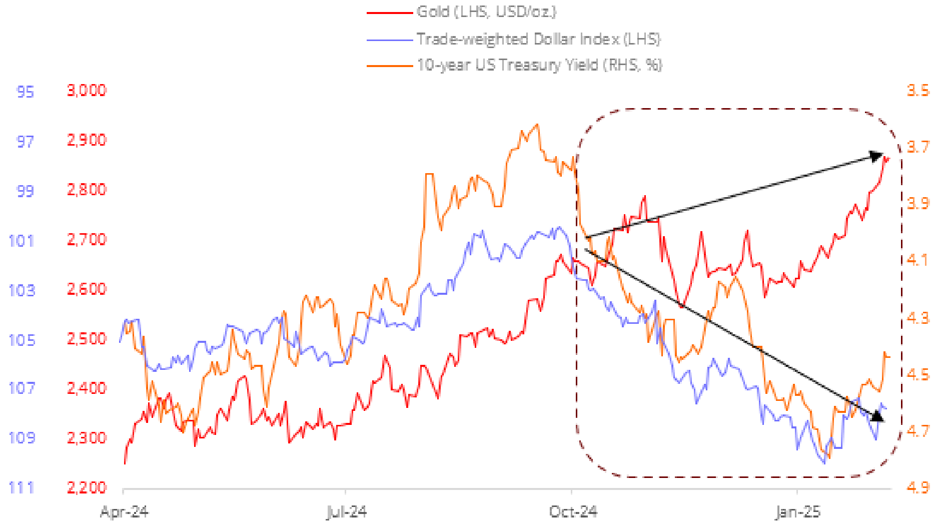
Tariff fears see gold stockpiling in New York. The immediate catalyst for the latest gold rally was fear around trade tariffs, specifically the possibility that bullion, which has historically been exempt from import duties, might be taxed in the future. This has resulted in a stockpiling of gold on COMEX, the New York commodity exchange – since the US election in November last year, inventory levels have risen 94% to reach c.33.9mn troy ounces, or USD97.0bn at current market price. Additionally, the DeepSeek-driven sell-off in the equities space likely contributed to further risk-off fund flows into the asset class. We have called for a gold positive environment since Trump's victory in our CIO perspectives article titled: Trump 2.0 – Winners & Losers (published 7 Nov 2024), highlighting policy uncertainties as a supporting factor for the asset class, and this call has played out to a tee. Notably, despite considerable dollar and rates strength since October last year, gold has remained remarkably resilient due to elevated uncertainty in the macro environment.

Figure 1: COMEX gold inventory rose 94% since the US election



Source: COMEX

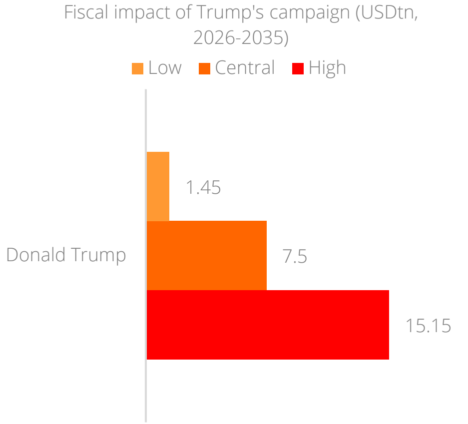
Figure 2: Gold conquered new highs despite dollar and rates strength



Source: Bloomberg, DBS

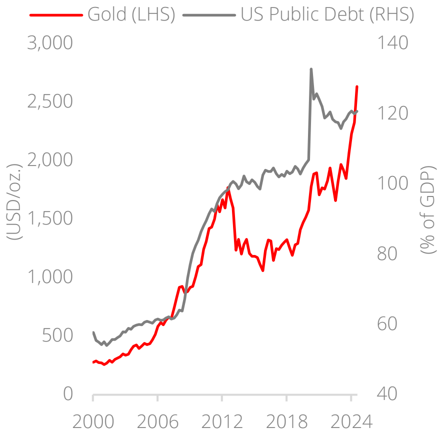
Tailwinds from rising fiscal deficits intact. In addition to the immediate catalysts mentioned above, the long-term tailwinds highlighted in our latest CIO Insights chapter on gold (Alternatives 1Q25: Gold – Resilience with Alternatives) remain intact. Chief among them is the growing US fiscal deficit. Under Trump, expansionary policies such as tax cuts, increased fiscal spending and de-regulation are expected to take place, and this will likely exacerbate the US fiscal deficit and prompt an expansion of liquidity in the future which is positive for gold from a monetary debasement angle.

Figure 3: US fiscal deficit expected to grow under Trump



Source: Committee for a Responsible Federal Budget

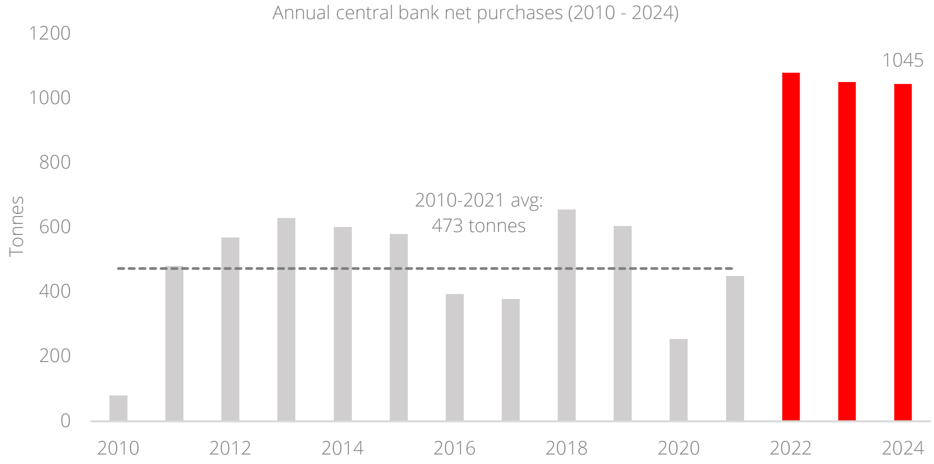
Figure 4: Gold is correlated with US indebtedness, which is expected to rise



Source: Bloomberg, Federal Reserve Bank of St. Louis, DBS

Geopolitics to continue driving de-dollarisation demand. The world is expected to become more fragmented from a geopolitical perspective under Trump 2.0, and that will continue to drive central bank demand for gold, especially among the BRICs+ nations, which view bullion as their biggest alternative to the dollar. This trend propelled central bank gold buying to a whopping 1,045 tonnes in 2024. This is the third consecutive year central bank buying exceeded the thousand-tonne mark – significantly higher than the c.473-tonne average between 2010 – 2021. It is also worth noting that de-dollarisation demand is not exclusive to central banks, more investor classes are beginning to see the merits of buying gold as a hedge against dollar and monetary debasement risk. This is evidenced by robust investment demand for gold, which grew 25% y/y in 2024 to reach 1,180 tonnes, a four-year high. To summarise, fiscal expansion in the US and growing global fragmentation will continue to strengthen the appeal of gold in the long-term.

Figure 5: Central bank gold buying remains elevated, reaching 1,045 tonnes in 2024



Source: Metal Focus, Refinitiv GFMS, World Gold Council

Structurally bullish on gold. In the short-term, there are uncertainties surrounding gold's outlook; bouts of dollar and rate strength can potentially weigh down on gold prices. However, as the past three months have shown, the heightened volatility from Trump 2.0 can just as easily buoy safe haven demand for bullion. In the longer term, there will continue to be upward pressure on gold price as the debasement trade chugs on. On balance, the outlook for gold remains positive and we upgrade our 12M target price for gold to USD3,330/oz. based on the assumption of a dollar index level of 110.8 and US 10-year treasury yield of 4.4% by 1Q26. We continue to advocate for clients to hold gold in their portfolios for its upside potential as well as its risk diversification properties due to its low correlation with public bonds and equities.

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