WORLD GOLD COUNCIL

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Gold Market Commentary

Let them eat tariffs

A bumpy May finishes flat

Gold prices ended the month of May almost flat (-0.7%) at US$3,278, albeit with some intra-month volatility. Year-to-date, gold remains up a staggering 26% (**Table 1, p1**).

Our Gold Return Attribution Model (GRAM) suggests that tariff-related policy risk, a rise in inflation expectations (both *Risk and Uncertainty* factors) and lagged follow-through from the dollar plunge in April contributed positively, while ETF outflows and the strong gold return in April (both *Momentum* factors) were drags on returns in May (**Chart 1**).

ETF outflows of US$1.8bn (-19t) were dominated by North America (-US$1.5bn, -16t), on a pause in tariff tensions. Following a sizeable drop in COMEX managed money net longs in April, investors increased net positions slightly by the equivalent of US$0.5bn (4t) in May. They remain well off the highs reached in December 2024 (35% net long as a % of open interest) sitting just above 13%.

Highlights

May review

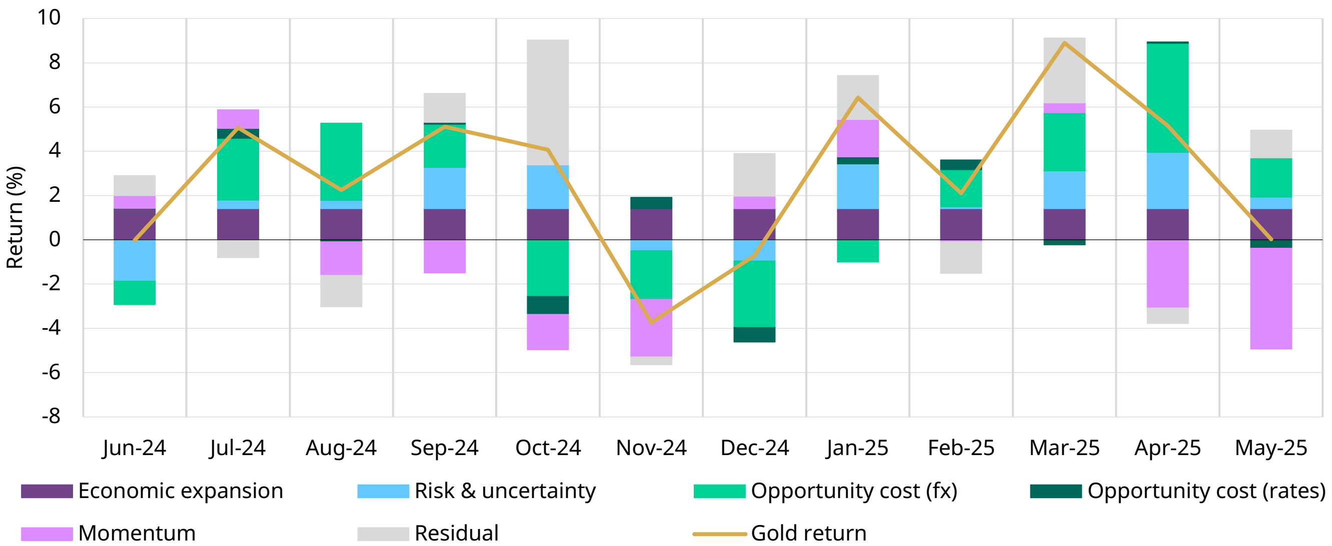
Tariff news and inflation helped but momentum effects including ETF outflows, countered, to leave gold flat for the month.

Looking forward

Tariffs are starting to bite, but not where intended, pushing stagflation risks higher and hamstringing several central banks ahead of their June meetings.

Chart 1: Momentum factors proved a drag, while political risk, inflation and the US dollar supported the May return

Key drivers of gold's return by month*



*Data to 31 May 2025. Our Gold Return Attribution Model (GRAM) is a multiple regression model of monthly gold price returns, which we group into four key thematic driver categories of gold's performance: economic expansion, risk & uncertainty, opportunity cost, and momentum. These themes capture motives behind gold demand; most importantly, investment demand, which is considered the marginal driver of gold price returns in the short run. The 'residual' represents the percentage change in the gold price that is not explained by factors already included. Results shown here are based on analysis covering a five-year estimation period using monthly data. Alternative estimation periods and data frequencies are available on Goldhub.com.
Source: Bloomberg, World Gold Council

Table 1: Gold prices ended May flat, as profit-taking battled solid fundamentals ahead

Gold price and performance in key currencies*

	USD (oz)	EUR (oz)	JPY (g)	GBP (oz)	CAD (oz)	CHF (oz)	INR (10g)	RMB (g)	TRY (oz)	AUD (oz)
May price*	3,278	2,888	15,176	2,435	4,503	2,695	95,058	768	128,473	5,096
May return*	-0.7%	-0.7%	0.2%	-1.6%	-1.3%	-0.7%	1.2%	-1.4%	1.1%	-1.3%
Y-t-d return*	25.6%	14.6%	15.0%	16.8%	19.9%	13.8%	25.2%	24.6%	39.2%	20.8%
Record high price*	3,434	3,003	15,707	2,573	4,741	2,808	98,228	830	132,083	5,367
Record high date*	22-Apr-25	22-Apr-25	08-May-25	22-Apr-25	22-Apr-25	22-Apr-25	22-Apr-25	22-Apr-25	02-Jun-25	22-Apr-25

*As of 31 May 2025. Based on the LBMA Gold Price PM in USD, expressed in local currencies, except for India and China where the MCX Gold Price PM and Shanghai Gold Benchmark PM are used, respectively. Source: Bloomberg, World Gold Council

Tariff tremors

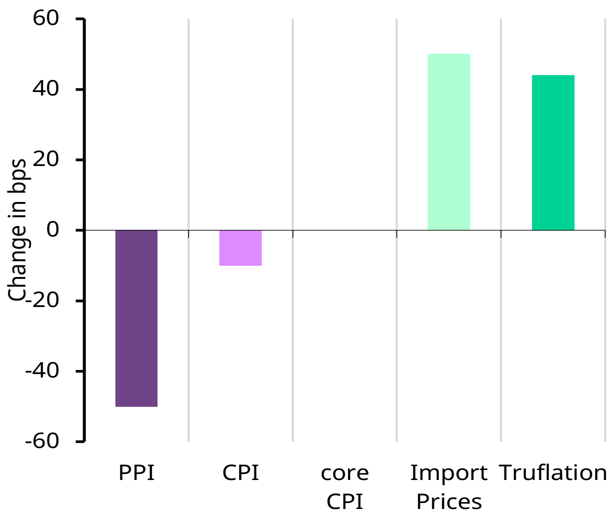
A decision by US federal courts to block the Trump administration's sweeping tariffs lit a relief rally in risk assets on 29 May. However, this might only be temporary as several options appear available to the administration to sidestep the judgement.[1] For now we assume little change.

Consensus sees tariffs as ultimately inflationary (see **Chart 3**). Yet only a faint ripple, like in the Jurassic Park water glass, has appeared so far. Official inflation data remains soft but the unofficial *Truflation*[2] inflation measure has picked up firmly (**Chart 2**).

And the reason inflation is expected is that despite the US administration's steadfast claim that tariff countries will pay, data hasn't confirmed it yet and markets are unsure.

Chart 2: Official data not showing inflation...yet

Change in inflation measures since 1 April*



*Data from 1 April 2025 to 31 May 2025. Truflation is a real-time estimate of goods inflation calculated by TruLabs.
Source: Bloomberg, TruLabs posts on X, World Gold Council

Let them eat tariffs

So who does foot the bill – the exporter, the importer, or the end consumer? So far, it appears that exporters are not absorbing the tariffs as US import prices, which exclude tariffs, are unchanged (**Chart 2**). If exporters like China were absorbing, those prices should be lower.[3]

Producer price index (PPI) data from April – which excludes imports – suggested a contraction in margins as capital equipment surged but core finished consumer goods did not. And final demand trade services prices, a proxy for margins, dropped by 1.6%.[4]

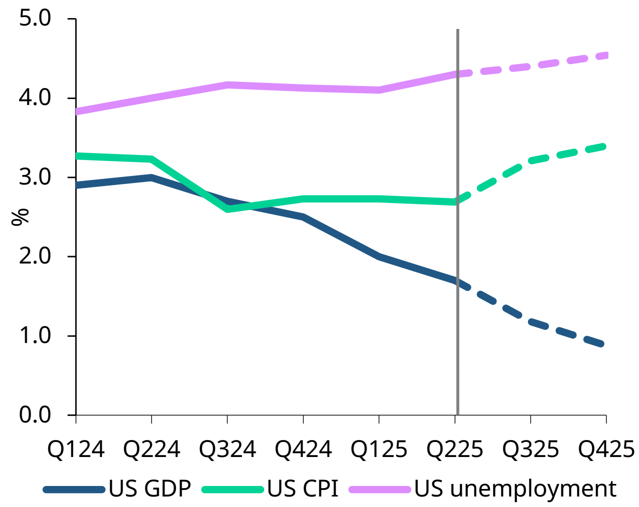
At least officially, and for now, US companies appear to be eating the tariffs, something which the public admonishment of Amazon and Walmart's attempt to pass on tariffs to consumers seems to back up.[5]

Stag, meet flation

But the expectation is that sooner or later, consumers will also feel the pinch. These dynamics of weaker margins and higher consumer prices have a stagflationary whiff about them, as consensus expectations lay bare (**Chart 3**).

Chart 3: Consensus expectations are stagflationary

Consensus GDP, CPI and unemployment forecast*



*Data as of 31 May 2025.
Source: Bloomberg, World Gold Council

1. Here are the White House's tariff options after losing key court case, according to Goldman Sachs | Morningstar; How Trump Could Still Implement His Tariff Agenda
2. Independent, economic & financial data in real time on-chain | Truflation
3. Globaldata Lombard Street Research.
4. Parker Ross (@Econ_Parker) / X
5. Trump turns the screws on big companies amid tariff fight - POLITICO

Prior research shows that stagflation is an environment that particularly favours gold.

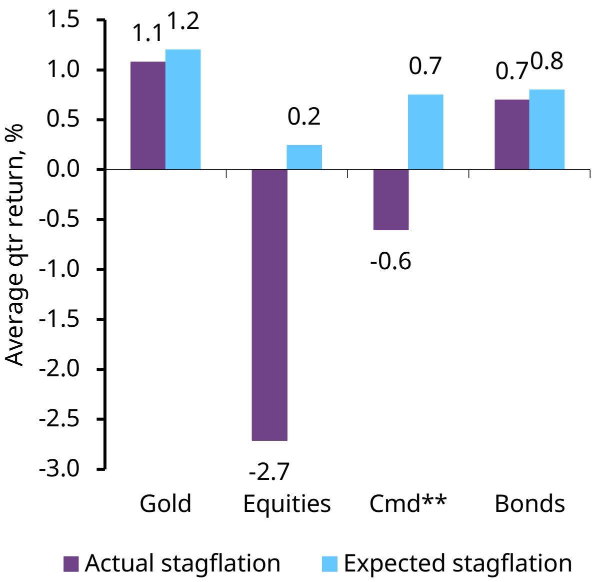
The theory behind this is quite simple:

- Bonds suffer because inflation is higher
- Cyclical commodities suffer because growth is lower
- Equities suffer because margins contract as sales fall while costs rise.

Historically it hasn't always played out like this, but, on average, stagflationary episodes have been quite good for gold relative to stocks, cyclical commodities and bonds. But we don't necessarily have to wait for such an environment to play out. Further analysis suggests that stagflationary expectations are nearly as influential in driving gold's relative average outperformance (**Chart 4**), whether we get there or not.

Chart 4: Stagflationary expectations can also drive gold's outperformance

Performance of asset classes during stagflationary quarters*



*Quarterly data from Q1 2000 to Q1 2025. Stagflation defined as a quarter of falling GDP y/y growth and rising y/y CPI. These values are weighted by their magnitude so that large moves get a larger weight than small moves. Gold is the LBMA PM price, equities are MSCI USA and bonds are the Bloomberg US Treasury Agg index. **Cmd represents cyclical commodities: Bloomberg BCOM ex Gold index. Expected stagflation measures the Survey of Professional Forecasters (SPF) 2Q ahead GDP growth and inflation expectations less 1Q ahead expectations. This is to avoid comparing 1Q ahead expectations relative to an ex-post revised actual GDP figure.
Source: Bloomberg, Macrobond, World Gold Council

In summary

Last month we discussed the Fed's dilemma in cutting rates, which they acknowledged in their May FOMC minutes.[6]

Other central banks are in a similar predicament: a surprise inflation surge in April will likely see the **Bank of England** err on the side of caution on **19 June** and hold rates steady.[7] The **European Central Bank** appears a little more concerned about growth and a cut on **5 June** before a pause in July is on the cards,[8] while the **Reserve Bank of India** is set for a third consecutive cut on growth concerns on **June 6**.[9] And the Bank of Japan is expected to hold rates steady on 16 June, facing rising inflation alongside tariff-led growth risks

The challenge the central banks face, particularly the Fed, is having their foot on the break and accelerator at the same time. With **the Fed's next meeting scheduled on 18 June**, the market is all but convinced of no change to the policy rate.[10]

Communication, along with an update to projections, will therefore be key as the Fed watches for hard-data confirmation of a material slowdown while ignoring an expected 'transitory' rise in inflation from tariffs.

This could embolden treasury bears and sustain gold support through any rise in yields.

Notwithstanding the temporary setback for Trump's policies following the US federal court decision, the stagflationary picture continues to develop. But the hitherto strong run-up in gold prices makes incremental gains perhaps harder to achieve.

6. Fed worried it could face 'difficult tradeoffs' if tariffs reaggravate inflation, minutes show
7. BoE's Bailey says uncertain outlook demands careful approach to rate cuts | Reuters
8. ECB to cut rates on 5 June but skip July as end of easing campaign nears: Reuters poll | Reuters
9. RBI to cut rates by 25 bps on 6 June, then once more in August - Reuters poll | Reuters
10. CME FedWatch - CME Group

World Gold Council

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We drive industry progress, shaping policy and setting the standards for a perpetual and sustainable gold market.

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Jeremy De Pessemier, CFA
Asset Allocation Strategist

Johan Palmberg
Senior Quantitative Analyst

Kavita Chacko
Research Head, India

Krishan Gopaul
Senior Analyst, EMEA

Louise Street
Senior Markets Analyst

Marissa Salim
Senior Research Lead, APAC

Ray Jia
Research Head, China

Taylor Burnette
Research Lead, Americas

Juan Carlos Artigas
Global Head of Research

Market Strategy

John Reade
Senior Market Strategist, Europe and Asia

Joseph Cavatoni
Senior Market Strategist, Americas

Further information:

Data sets and methodology visit:
www.gold.org/goldhub

Contact:
research@gold.org