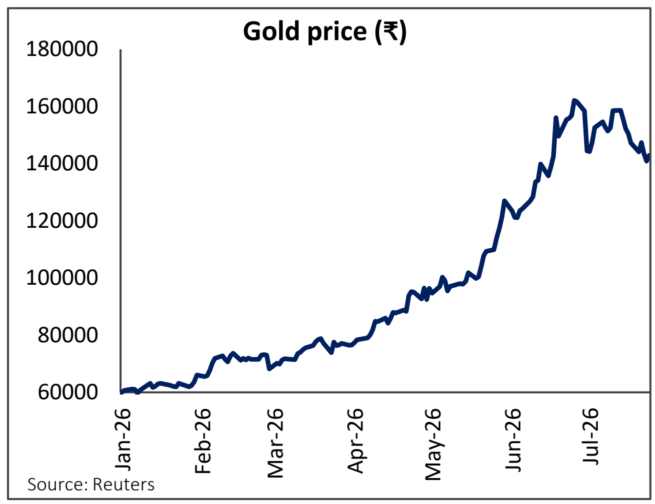
31st July 2026

When War Became Bearish For Gold!!!

Executive Summary



<u>H1 2026 in Six Key Takeaways</u>

> This time gold's biggest challenge isn't war—it is inflation.

✓ Gold started 2026 on a strong footing, supported by tariff uncertainty, robust ETF inflows, central bank buying and expectations of Federal Reserve rate cuts

✓ Narrative shifted in Q2 as tariffs and the US-Iran conflict became inflationary rather than purely geopolitical events

✓ Markets repriced sharply from expecting multiple Fed rate cuts to a higher-for-longer policy outlook, pushing real Treasury yields and the US dollar higher

✓ Rising real yields outweighed traditional safe-haven demand, causing gold to lose momentum despite heightened geopolitical tensions

✓ Silver broadly tracked gold but remained more volatile due to its dual role as a precious and industrial metal

✓ By June, macroeconomic fundamentals—not geopolitics—had become the dominant driver of precious metals

> H1 2026 challenged one of the oldest assumptions in commodity markets: war alone is no longer enough to support gold. Markets increasingly responded to how geopolitical events influenced inflation, interest rates and monetary policy rather than the events themselves.

<u>H1 2026 at a Glance: A Market Defined by Shifting Narratives</u>

The first half of 2026 can be divided into three distinct macro phases, each driven by a different catalyst.

Phase	Market Theme	Primary Gold Driver	Market Impact
Phase I (Jan–Mar)	Tariffs & policy uncertainty	Safe-haven demand + Fed cut expectations	Gold rallies
Phase II (Apr–May)	Inflation concerns	Rising real yields	Gold loses momentum
Phase III (June)	US-Iran conflict	Oil-driven inflation & Fed repricing	Gold corrects

Source: MOFSL

Unlike previous years, where one dominant theme shaped markets, H1 2026 witnessed a rapid shift from growth concerns to inflation fears, and finally to monetary policy repricing. Each phase altered expectations for the Federal Reserve, the US dollar and ultimately the outlook for gold and silver.

Phase I: Tariffs, Policy Uncertainty & the Return of Safe-Haven Buying

Gold entered 2026 with strong momentum, extending the rally that began in 2025.

The key drivers were: □ Renewed tariff measures by Trump administration □Expectations of multiple rate cuts by Fed □Continued central bank gold purchases □ Strong ETF inflows □ VolatileUS dollar

Initially, markets viewed tariffs as a growth risk, with concerns over slowing global trade, supply-chain disruptions and potential retaliation from China and Europe. At the same time, easing inflation strengthened expectations that the Federal Reserve would begin cutting rates. Lower bond yields reduced the opportunity cost of holding non-yielding assets, encouraging fresh allocations into precious metals. Silver also benefited from improving investor sentiment, supported by optimism surrounding renewable energy, semiconductors and electrical infrastructure.

Market Snapshot – Q1

✓ Tariffs increased uncertainty ✓ Fed cuts remained the base-case scenario ✓ Global gold ETFs returned to inflows

✓ Central banks maintained strong gold purchases ✓ Gold extended its record-setting rally

By the end of March, the market consensus was simple:

> Lower rates + geopolitical uncertainty = Higher gold prices.

 # Phase II: Tariffs Become an Inflation Story

The second quarter marked a turning point.

Markets began recognising that tariffs were not only a source of uncertainty but also a source of inflation

Import duties increased production costs across industries, raising prices for manufacturers, businesses and consumers. Rather than slowing demand immediately, tariffs delayed the disinflation process and reinforced concerns that inflation could remain above the Federal Reserve's target for longer.

Meanwhile, US macroeconomic data continued to surprise on the upside.

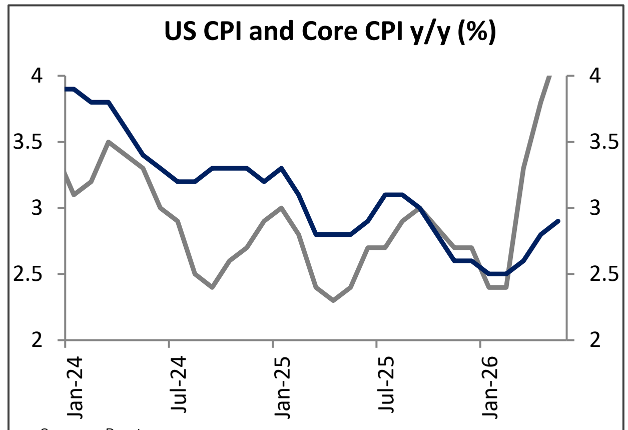
US Economy Remained Resilient

□ Tight labour market □ Firm wage growth □ Healthy consumer spending □ Sticky inflation □ Resilient growth numbers

Combination of resilient growth and tariff-driven inflation forced markets to rethink monetary policy expectations.

Earlier forecasts of multiple Fed rate cuts gradually disappeared, supporting Treasury Yields and Dollar index

Most importantly, real interest rates began rising again.



Source: Reuters

Phase III: When War Became Bearish for Gold

June delivered the defining event of H1 2026 as tensions between US and Iran escalated sharply.

Source: MOFSL

Initially, markets reacted exactly as history would suggest:

□ Gold rallied on safe-haven buying □ Crude surged □ Investors sought protection against broader geopolitical risks

However, the rally faded quickly:

Rather than focusing solely on geopolitical uncertainty, markets turned their attention to inflationary impact of higher oil prices.

Energy sits at the centre of the global economy. Higher crude prices feed directly into transportation, manufacturing, logistics and electricity costs, eventually lifting consumer inflation. Instead of increasing expectations for Fed rate cuts, the conflict reduced them. Markets increasingly priced a prolonged period of restrictive monetary policy, pushing Treasury yields, the US dollar and real interest rates higher. As ceasefire discussions eased immediate geopolitical concerns, the safe-haven premium embedded in gold prices faded.

The inflationary consequences, however, remained.

Gold therefore faced a double headwind:

□ Safe-haven demand weakened □ Rising real yields increased the opportunity cost of holding gold

Key Takeaway

Gold remains the world's preferred safe-haven asset—but safe-haven demand alone is no longer enough. The first half of 2026 reinforced a broader lesson seen during episodes such as the late stages of the 1979–81 oil crisis: the medium-term direction of gold is determined less by geopolitical headlines and more by real interest rates, liquidity conditions and monetary policy expectations.

Powell to Warsh: A New Fed, A New Market Narrative

While the US-Iran conflict dominated headlines, one of the biggest structural shifts for financial markets came from the Federal Reserve.

Markets entered 2026 expecting Chair Jerome Powell to begin an easing cycle as inflation gradually moderated. However, sticky inflation, resilient growth and tariff-driven price pressures steadily pushed those expectations back.

Appointment of Kevin Warsh further reinforced the shift towards a higher-for-longer interest rate environment. Although monetary policy remains data-dependent, investors viewed Warsh as placing greater emphasis on inflation control and financial stability, reducing the likelihood of aggressive rate cuts.

> Repricing of Fed expectations proved far more influential for gold than the geopolitical headlines themselves.

A Resilient US Economy Delayed the Fed Pivot

US Macro Scorecard

Indicator	H1 Trend	Impact on Gold
Labour Market	Strong	Negative
Wage Growth	Sticky	Negative
Consumer Spending	Healthy	Negative
GDP Growth	Slowed	Positive
Core Inflation	Persistent	Negative

Source: MOFSL

Consumer spending—accounting for nearly 70% of US GDP—remained resilient, while employment and wage growth continued to support household demand.

The result?

Markets saw little urgency for the Fed to cut rates, reinforcing the higher-for-longer narrative.

Source: MOFSL

Trump, Tariffs & Inflation Expectations

Tariffs remained one of the defining macro themes of H1 2026.

Initially viewed as a risk to global growth, markets gradually realised that tariffs were also inflationary.

Higher import duties increased production costs, disrupted supply chains and raised prices across several sectors. As businesses passed these costs on to consumers, inflation expectations remained elevated despite signs of economic moderation.

America's Growing Debt: A Long-Term Bullish Story, a Short-Term Headwind

Source: MOFSL

Another major theme during H1 was the continued deterioration of the US fiscal position.

Government debt continued to rise while higher interest rates significantly increased borrowing costs. At the same time, a large portion of low-cost debt matured and had to be refinanced at much higher yields. This created two opposing forces for gold.

Political uncertainty surrounding budget negotiations and the possibility of a temporary US government shutdown added another layer of volatility, although its impact remained largely sentiment-driven.

Fiscal deterioration may be bearish for gold in the short term through higher yields, but remains structurally supportive over the long run as investors seek protection against debt expansion and currency debasement.

Bank of Japan (BOJ), Yen & Global Liquidity

- While the Fed remained the primary driver, developments in Japan became increasingly important
- BOJ continued gradually normalising policy after years of ultra-low interest rates
- Higher Japanese yields encouraged domestic investors to bring capital back, unwinding the yen carry trade.

Liquidity Transmission

BOJ Tightening ➔Higher JGB Yields ➔ Carry Trade Unwind ➔Tighter Global Liquidity ➔Stronger US Dollar ➔ Short term pressure on Gold

Although liquidity stress can initially support safe-haven demand, it often strengthens the dollar, limiting sustained gains in precious metals.

China's Precious Metals Strategy

China remained one of the most influential players in precious metals markets.

✓ **Continued reserve diversification**	✓ **Proposed to become custodian and drive demand**
✓ **Ongoing Central bank purchases**	✓ Strong domestic investment demand
✓ **Reduced dependence on Dollar assets**	✓ Solar Energy
✓ **Electronics**	✓ AI infrastructure
✓ **Electrical Equipment**	✓ Inventory management by Imports and warehouses

China's inventory management strategy helped smooth domestic supply while influencing global silver trade flows, reinforcing its role as the world's largest industrial consumer of the metal.

Investment Flows: Two Very Different Stories

Investment demand followed two distinct phases.

Q1

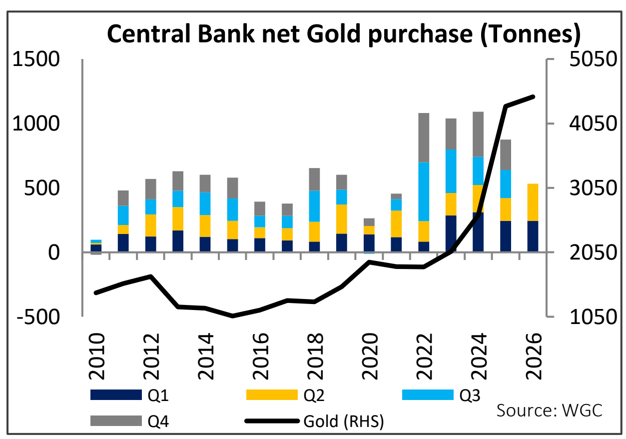
☐ Strong global ETF inflows ☐ Renewed institutional buying

☐ Continued central bank buying ☐ Healthy Indian ETF demand.

Q2

☐ ETF outflows started ☐ Institutions shifted towards higher-yielding fixed income

☐ Central bank buying remained resilient ☐ Indian investors continued accumulating through SIPs and ETFs



The divergence between tactical investors and strategic buyers became increasingly evident during the second quarter.

Speculative Positioning Accelerated the Correction

Macro fundamentals changed the trend.

Speculative positioning amplified it.

Entering 2026, COMEX gold positioning remained heavily skewed towards long positions following the rally in 2025.

As rate expectations shifted:

□ Long positions were reduced □ Fresh short positions emerged □ Momentum selling accelerated

□ Gold corrected more sharply than fundamentals alone suggested

 # Silver: More Than Gold's Volatile Cousin

Silver broadly followed gold but remained considerably more volatile.

Unlike gold, nearly 50% of silver demand comes from industrial applications.

While industrial uncertainty created near-term volatility, structural demand from electrification and the energy transition continued supporting silver's long-term outlook.

Looking Ahead: What Matters in H2 2026?

H1’26 demonstrated that precious metals are increasingly responding to macroeconomic transmission mechanisms rather than geopolitical headlines alone.

Several themes are likely to dominate the second half:

Inflation Trajectory: Any sustained moderation in inflation would strengthen expectations for Federal Reserve easing and support gold. Conversely, persistent inflation driven by tariffs or energy prices could keep real yields elevated.

Federal Reserve Communication: Markets will closely monitor Kevin Warsh's policy stance and incoming economic data for confirmation of the future rate path.

Fiscal Sustainability: Rising Treasury issuance, expanding deficits and political uncertainty surrounding government funding remain key variables for bond markets.

Global Liquidity: BOJ normalisation, dollar funding conditions and cross-border capital flows will continue influencing precious metals indirectly.

China and Central Bank Demand: Reserve diversification and official sector buying remain important structural pillars supporting long-term gold demand.

ETF Flows and Speculative Positioning: Tactical investment demand will determine whether gold resumes its broader bull market or remains constrained by elevated real yields.

Conclusion: Return of Macro Dominance

For investors, message is clear: relationship between war and gold has become increasingly conditional. In an environment where geopolitical shocks fuel inflation rather than recession, precious metals must compete with higher-yielding assets, real rates and a stronger dollar.

As H2 2026 begins, outlook for gold and silver will therefore depend less on the next geopolitical headline and more on whether inflation moderates sufficiently to allow some flexibility to central banks and also on US economic data points. Until real yields begin a sustained decline, and the US debt situation is managed, macroeconomics—not geopolitics—is likely to remain the dominant force shaping the precious metals landscape.

For Gold, we could see prices showing some strength however, till there is no clarity on interest rate trajectory and Middle East escalations, pressure could continue. From current levels, risk-reward remains favorable for long-term investors. A staggered accumulation strategy is recommended, as gold could witness a 6–8% correction from current levels, although pace of decline remains uncertain. Investors may consider accumulating from current levels down to the $3,800–3,650 zone, with a 12–15 month investment horizon targeting $4,800, followed by $5,500+. On domestic front, assuming USDINR at 95.5, accumaltion from current level till the lows of ₹133,000-130,000, with targets of ₹168,000 followed by ₹193,000 from a 12-15 month perspective.

Parity Price of Gold in Rupees at various dollar levels

Gold in $ / Rs/$	3400	3700	4000	4300	4600	4900	5200	5500
91	114008	124062	134116	144169	154223	164276	174330	184384
92	115261	125425	135589	145753	155918	166082	176246	186410
93	116514	126789	137063	147338	157612	167887	178161	188436
94	117767	128152	138537	148922	159307	169692	180077	190462
95	119020	129515	140011	150506	161002	171497	181993	192488
96	120272	130878	141484	152091	162697	173303	183909	194515
97	121525	132242	142958	153675	164391	175108	185824	196541
98	122778	133605	144432	155259	166086	176913	187740	198567
99	124031	134968	145906	156843	167781	178718	189656	200593

Most Probable path

Alternative levels on weaker USD: INR correlation to gold

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