Solid Research
Solid Relationships

Commodities Insight

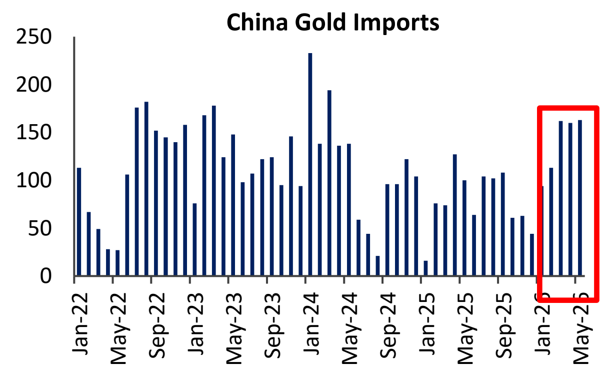
18 August 2026

The Yen and Yuan effect

Asia's two largest economies are influencing the global gold market through two distinct policy shifts. Meanwhile, Japan has engineered a sharp recovery in the yen through currency intervention and a gradual shift in Bank of Japan (BOJ) policy, triggering a rapid unwinding of global yen carry trades. Together, these developments are expected to shape gold prices through stronger physical demand, a weaker U.S. dollar and increased volatility across financial markets.

China: Strengthening the Structural Foundation for Gold

China continues to reinforce its position as a major driver of physical gold demand. PBoC purchased 20t in June, extending its buying streak to 21 consecutive months and taking YTD purchases to 60t. Official reserves now stand at 2,346t, around 8% of total FX reserves, reflecting its strategy of diversifying away from the U.S. dollar amid geopolitical and financial uncertainty.



Source: WGC

China is also reportedly moving more gold reserves from London to Hong Kong, supporting the city's ambition to become a global gold-trading hub. Relocation is expected to continue as Hong Kong launches a new gold-clearing system to strengthen its role in global trading and pricing.

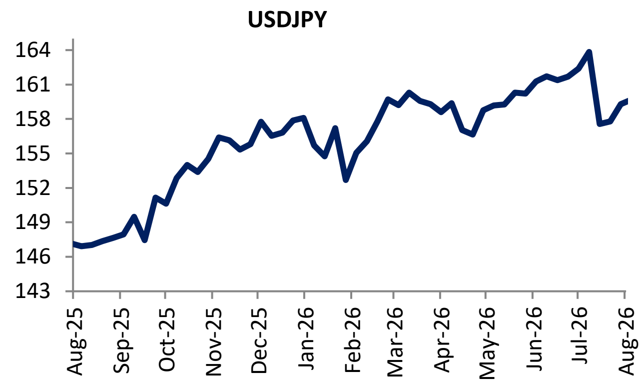
Physical demand has strengthened following correction in gold prices. Chinese gold imports surged 89% YoY to nearly 865t in H1 2026, while June imports reached 173t, highest monthly level in over two years and third consecutive monthly increase. Lower international prices, a stronger yuan, higher import quotas and robust retail demand supported imports and inventory replenishment.

Chinese gold ETFs attracted 29t of net inflows in H1 2026, the second-strongest first half on record. Holdings rose to 277t, with AUM reaching RMB 243 bln (US$36 bln). Although June & July saw record outflows due to profit booking and stronger equities, overall investment demand remains above historical averages.

China has also discontinued leveraged retail "paper gold" products offered by several major commercial banks. The move does not affect physical bullion, GAPs, ETFs or institutional trading on the SGE. Instead, it aims to reduce speculation and encourage physically backed investment. SGE continues to show healthy physical demand, with elevated withdrawals, resilient trading and strong imports. Unlike COMEX, which is largely financial, SGE remains predominantly physical-delivery based.

Overall, sustained PBoC purchases, strong imports, ETF participation, SGE activity and regulatory reforms point to a stronger structural foundation for Chinese gold demand.

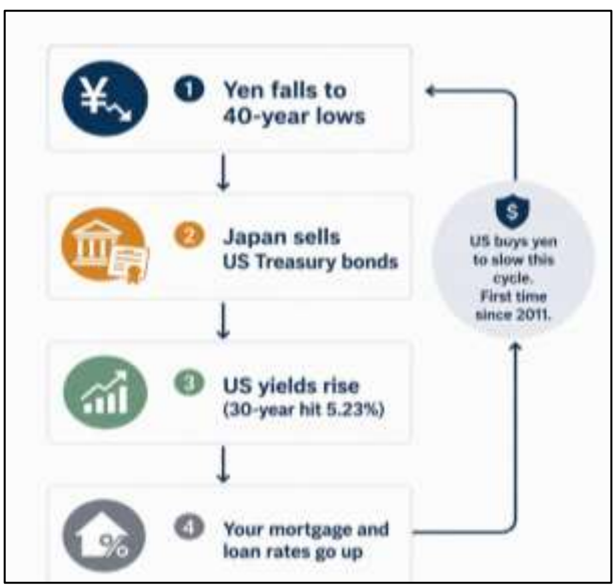
Japan: Yen Strength and the Return of Monetary Normalisation



Source: Reuters

Japan's yen intervention triggered a sharp but short-lived recovery, highlighting the difficulty of reversing currency weakness while the U.S.–Japan yield gap remains wide. USD/JPY rose to around 163.99 before a rare joint intervention pushed it below 157. The pair has since returned to around 159–160, while speculative bearish yen positions recorded their largest reduction in more than 12 years.

Intervention was estimated at around ¥8.45 trillion ($52.8 billion), with U.S. Treasury participation signalling strong support for Japan's efforts to prevent excessive yen weakness and financial-market spillovers. However, intervention cannot remove the fundamental driver of yen weakness: the interest-rate differential. The BOJ rate is around 1.0%, versus the Fed's 3.50–3.75% target range. This supports the yen carry trade—borrowing cheaply in yen and investing in higher-yielding dollar assets.



Source: WGC

Sudden yen strengthening makes these positions less profitable, forcing investors to buy yen and sell overseas assets, creating a cycle of yen appreciation and global deleveraging. Recent intervention disrupted positioning but, did not change underlying rate equation. Sustained yen recovery would require further BOJ tightening, lower U.S. yields, or both.

Leveraged funds are now holding their largest short yen position, borrowing cheap yen to invest in higher-yielding assets, particularly U.S. technology stocks. This makes the carry trade increasingly crowded. If the yen strengthens sharply, investors could be forced to unwind positions quickly. A precedent came in August 2024, when the yen surged roughly 14% against the dollar, triggering a major carry-trade unwind and wiping more than $6 trillion from global equity markets. While this does not imply another unwind, markets are more vulnerable to a renewed yen rally.

Outlook for Gold

China and Japan are influencing gold through different channels. China is strengthening structural demand through reserve accumulation, physical imports and investment flows, while Japan's monetary normalisation is reshaping global liquidity through a stronger yen and potential carry-trade unwinding.

Together, these developments create a constructive medium-term backdrop for gold. China's structural demand provides support, while a narrowing U.S.–Japan yield differential and potential dollar weakness could offer further upside. However, further carry-trade unwinding could create periods of volatility and temporary selling across global assets, including gold.

For Gold, we could see prices showing some strength however, market participants will require clarity on interest rate trajectory and Middle East escalation. 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 at dips, with a 12–15 month investment horizon targeting $4,800, followed by $5,500+. On domestic front, assuming USDINR at 95.5, accumulation 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

Commodities Advisory Desk - +91 22 3958 3600; commoditiesresearch@motilaloswal.com

Navneet Damani	**Head Research- Commodities & Currencies**	**navneet.damani@motilaloswal.com**
Manav Modi	**Analyst- Bullion**	**manav.modi@motilaloswal.com**