ICBC Standard Bank

ICBCS Gold Market Outlook

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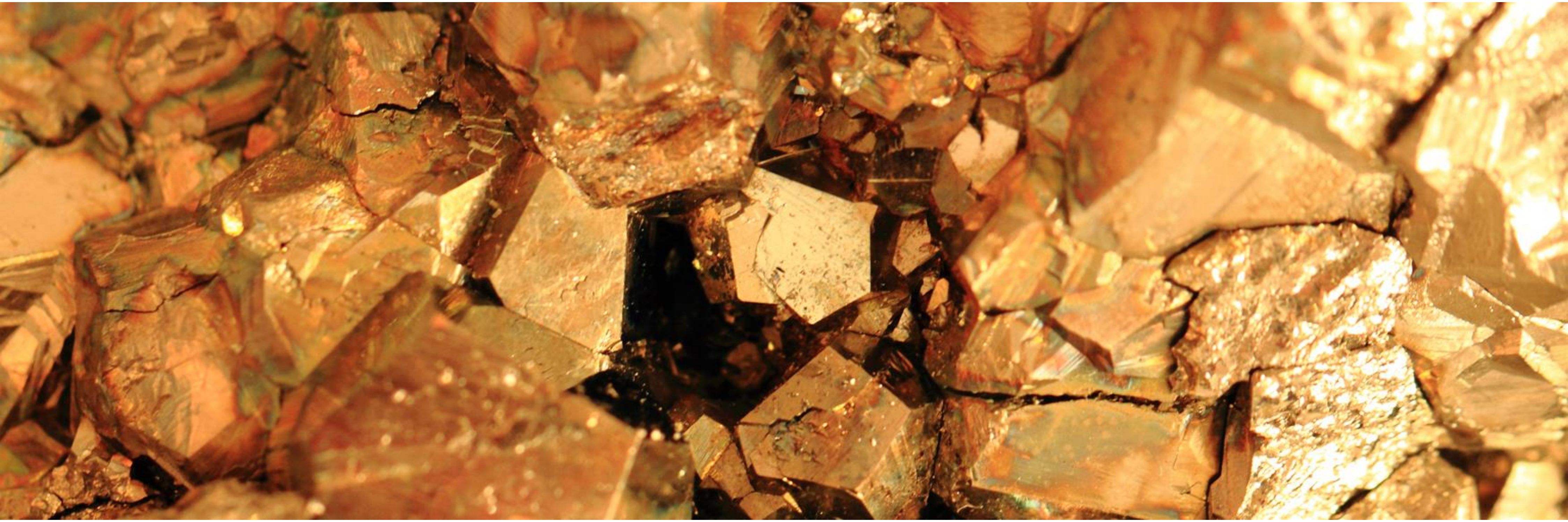
June 2025



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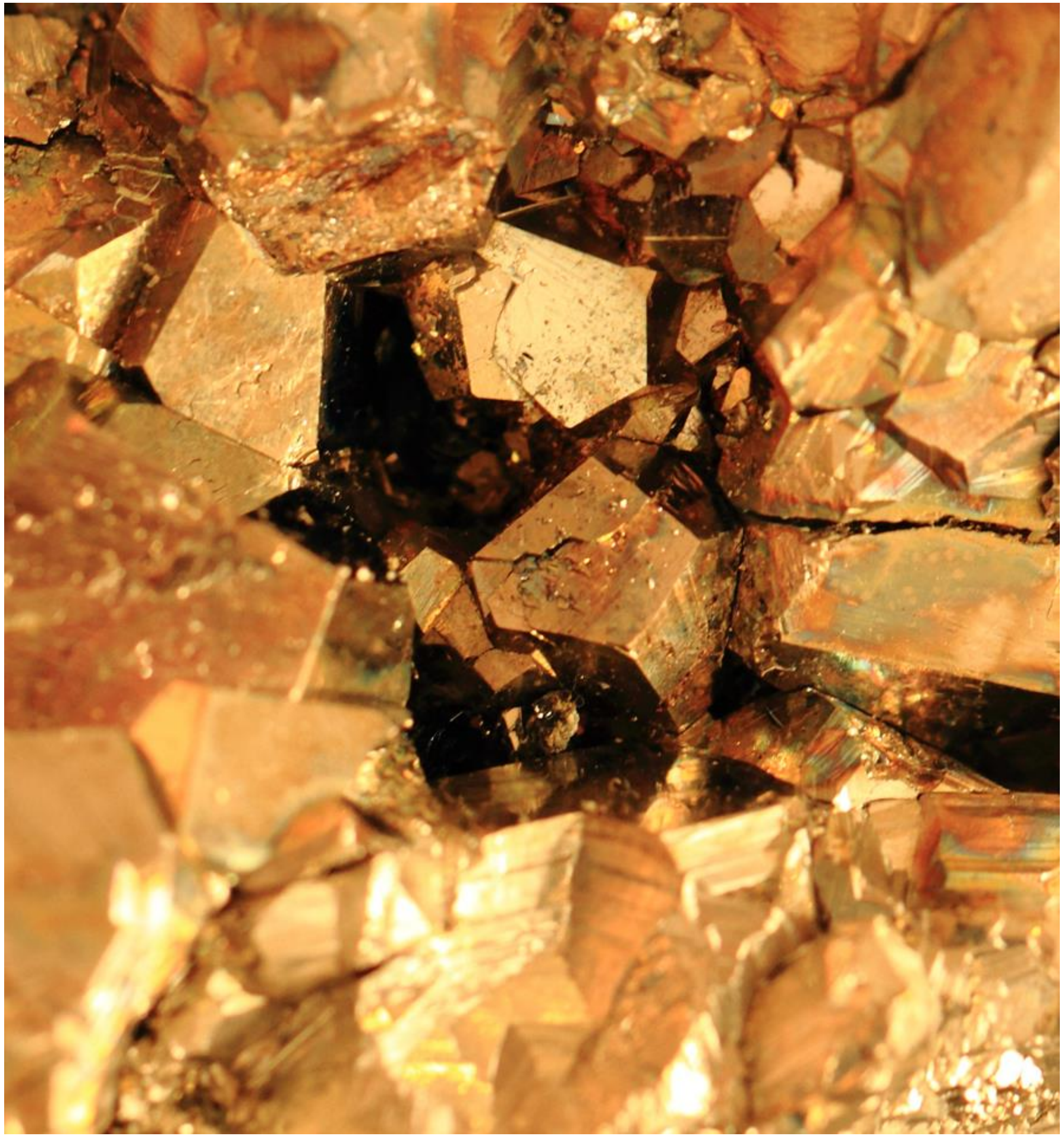

Global Economic Outlook

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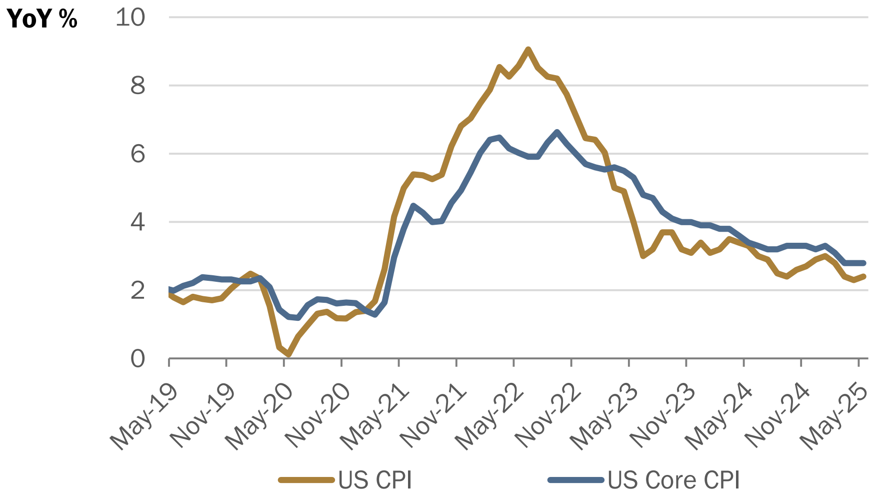
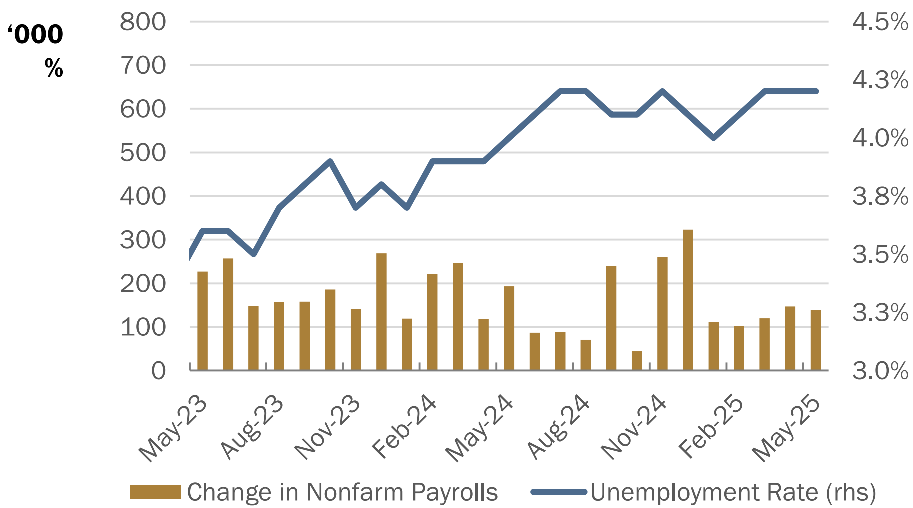
US CPI cooled in May as tariff-driven inflation yet to materialise



Source: Bureau of Labour Statistics

US CPI

- US inflation continued to ease in May, with major CPI indicators coming in below expectations, indicating the impact of Trump's tariffs has not yet filtered through to overall price levels, and businesses may still be digesting existing inventories.
  - May CPI rose by 2.4% y-o-y, in line with expectations and slightly higher than April's 2.3%. However, On a m-o-m basis, CPI increased by just 0.1%, falling short of both the forecast and the previous month's 0.2% gain.
  - Core CPI rose by 2.8% y-o-y, below the expected 2.9% and unchanged from April. On a m-o-m basis, core CPI increased by only 0.1%, also underperforming expectations of 0.3% and down from April's 0.2%.



Source: Bureau of Labour Statistics

NFP and the unemployment rate

- In May, the US nonfarm payrolls report came in above expectations, which improved market sentiment. However, significant downward revisions to the previous two months' data revealed underlying softness in the labour market.
  - The US added 139,000 jobs in May, slightly surpassing the forecast of 126,000, though this marked the lowest monthly gain since February. Notably, job gains for March and April were revised down by a combined 95,000.
  - The unemployment rate held steady at 4.2%, remaining within the narrow range seen since May 2024. Average hourly earnings showed unexpected resilience, rising 0.4% m-o-m and 3.9% y-o-y, also beating forecasts.

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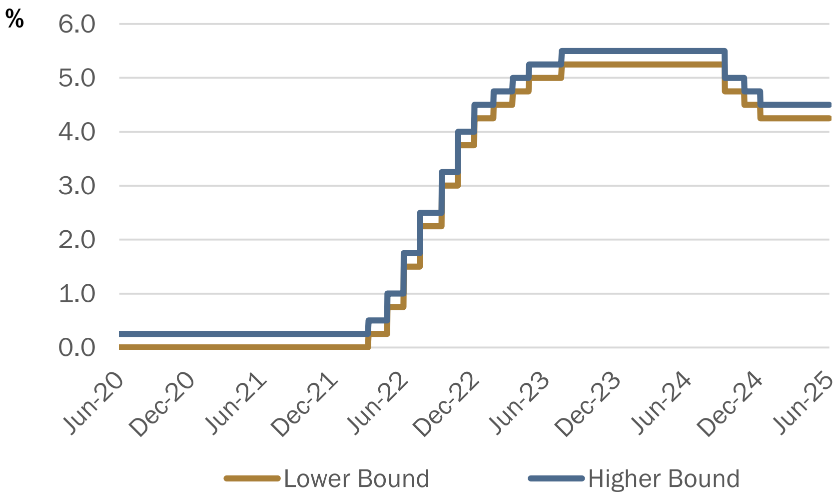
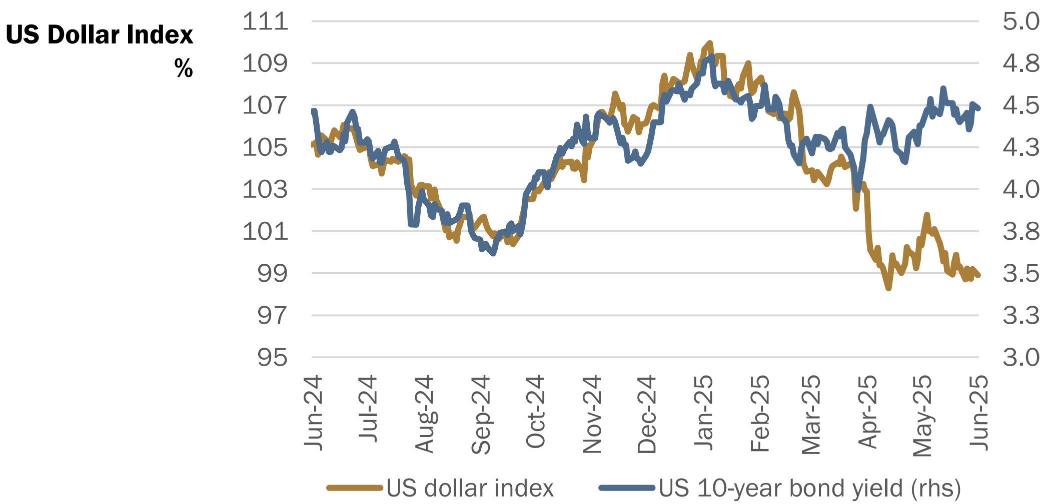
The dollar index hovers near three-year lows despite US-China trade talk



Source: Federal Reserve



Source: Bloomberg

US Interest rate

- In May 2025, the Federal Reserve held key interest rates steady at a target range of 4.25% to 4.5%, where it has been since December. The Fed said the economy is facing mixed signals—while inflation is still high, job growth is slowing. This has raised concerns about stagflation. Because of this uncertainty, the Fed chose to wait before making any changes to rates.
- Fed Chair Powell noted that Trump's unexpectedly aggressive tariffs had introduced significant uncertainty, complicating the central bank's policy path. The upcoming trade negotiations could materially shift the economic landscape. The Fed will closely watch the full impact of trade policy on inflation and growth before making further moves.

US Treasury yield and dollar

- Expectations of a US economic slowdown have intensified following Trump's tariffs, which also prompted Moody's to downgrade the US credit rating. As a result, the US dollar Index fell to its lowest level since April 2022. The second round of US-China tariff negotiations began on June 9–10, and both parties have agreed on a framework to resolve their trade disputes.
- Despite these developments, the US dollar Index has not shown a significant rebound as the China-US trade framework was short of details, leaving the door open for future discussions. The uncertainty and risks associated with Trump's tariffs continue to weigh heavily on investor sentiment. Therefore, investors are expected to maintain a cautious stance and a risk-averse strategy when it comes to US assets.

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Fed officials increasingly divided on future interest rate policy

VS

Hawks:

Maintain that inflation risks may be more persistent and advocate keeping interest rates unchanged.

Neel Kashkari

President, Federal Reserve Bank of Minneapolis

- Supports holding interest rates steady due to uncertainty around the duration and impact of trade negotiations and retaliatory tariffs.
- Prefers to wait for clearer signals on how tariffs will affect inflation before considering any policy changes.

Lorie Logan

President of the Federal Reserve Bank of Dallas

- Argues that current interest rates are appropriate and may need to remain unchanged for an extended period.
- Warns that excessive rate cuts could lead to an inflationary spiral, despite their short-term boost to employment.

Doves:

Downplay the short-term inflationary impact of tariffs to pave the way for rate cuts.

Christopher Waller

Governor, Federal Reserve Board

- Believes the inflationary impact of tariffs will be temporary and should not influence monetary policy decisions.
- Supports rate cuts later this year if inflation continues to decline, the labour market remains strong, and tariff effects stay contained.

Austan Goolsbee

President, Federal Reserve Bank of Chicago

- Views tariff-related inflation as short-lived and not significant enough to alter the broader policy direction.
- Maintains that the Fed remains on a path toward rate cuts, with fundamentals largely unchanged.

The outlook for Federal Reserve policy depends on the scale and persistence of tariffs. The core of the disagreement between hawkish and dovish Fed officials lies in the unresolved question of how long the tariff effects will last.

Source: Various sources

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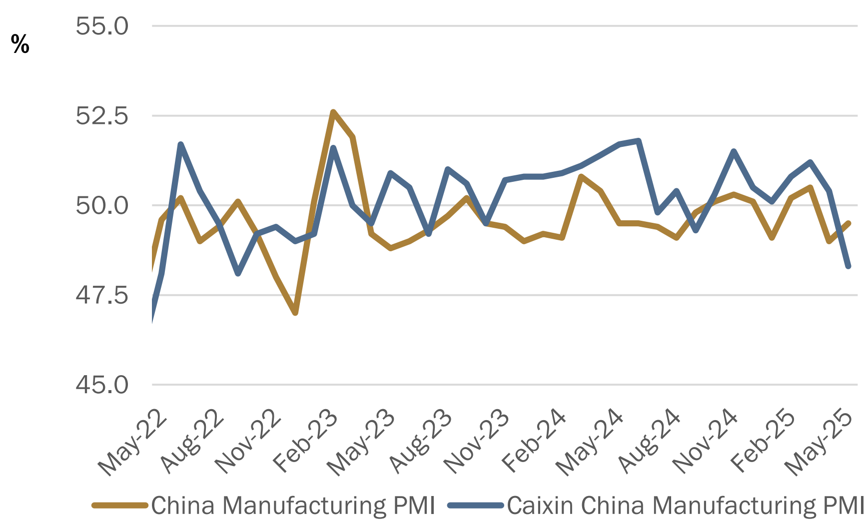
China's manufacturing activity shrank in May amid Trump's tariff impacts

Source: National Bureau of Statistics of China



Source: China Federation of Logistics and Purchasing

China's industrial production and retail sales

- In April, China's industrial sector demonstrated resilience in the face of rising US tariffs, supported by ongoing policy measures from Beijing. However, consumer spending showed signs of strain, with retail sales growth falling short of expectations.
  - Industrial output rose 6.1% year-on-year in April, down from 7.7% in March and beating a forecast of a 5.7% rise.
  - Retail sales rose 5.1%, down from 5.9% in March and missed the forecast of a 5.8% expansion.
  - Fixed-asset investment growth softened to 4.0% YoY, year to date, which marked a larger-than-expected slowdown.

China's manufacturing PMI

- China's manufacturing activity shrank for a second month in May, reflecting tariff impacts and raising expectations for more stimulus measures from Beijing to support the economy under the US-China trade war.
  - The official manufacturing PMI improved slightly to 49.5 in May from 49.0 in April but stayed below the 50-mark separating growth from contraction.
  - China's Caixin Manufacturing PMI fell to 48.3 in May from 50.4 in April, missing analysts' expectations of 50.7 and marking the first contraction since September last year. It was also the lowest reading in 32 months. The gauge for new export orders fell to its lowest level since July 2023.

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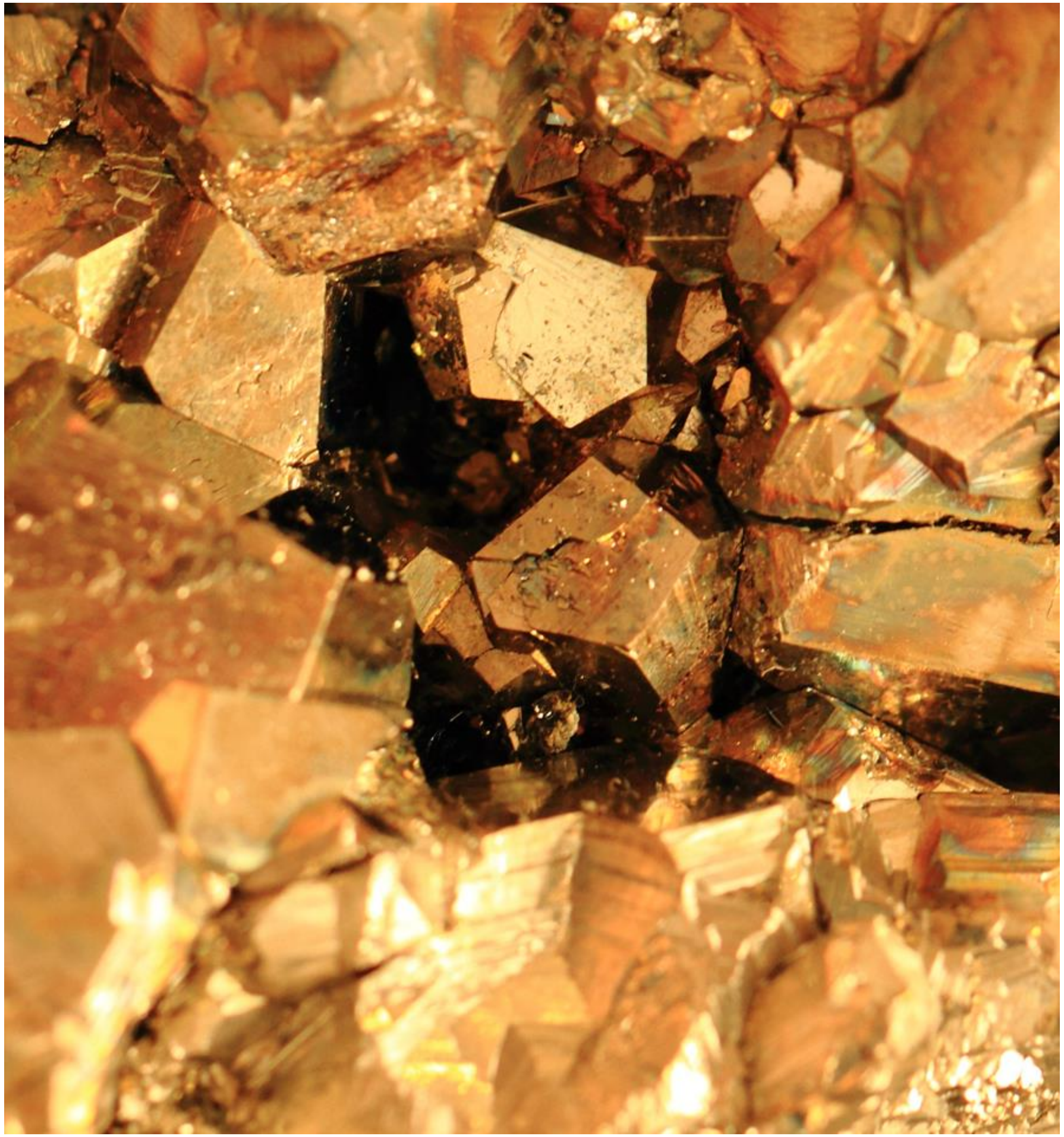
Unexpected US-China temporary tariff agreement eased trade tensions

Comparison of Tariff Adjustments from US-China Geneva Talks

Date	US Tariff Measures on China	China's Tariff Measures on the US
April 2	Executive Order No. 14257: Impose additional 34% tariff (on top of the previous 20% baseline tariff, totalling 54%)	Announcement No. 4 of 2025 by the Tariff Commission: Impose additional 34% tariff on US goods
April 8	Executive Order No. 14259: Additional 50% tariff (totalling 104%)	Announcement No. 5 of 2025 by the Tariff Commission: Increase tariff rate from 34% to 84%
April 9	Executive Order No. 14266: Additional 21% tariff (totalling 125%, with some goods reaching 145% due to fentanyl issues)	Announcement No. 6 of 2025 by the Tariff Commission: Increase to 125% (effective December)
May 12	1. Suspend 34% tariff (90 days) 2. Retain 10% tariff 3. Cancel the additional tariffs imposed on April 8 and 9 4. Retain all duties imposed on China prior to April 2, 2025	1. Simultaneously suspend 34% tariff (90 days) 2. Retain 10% tariff 3. Cancel the additional tariffs from Announcements No. 4 and No. 6

Source: Summarised by SMM International



Gold Market Analysis

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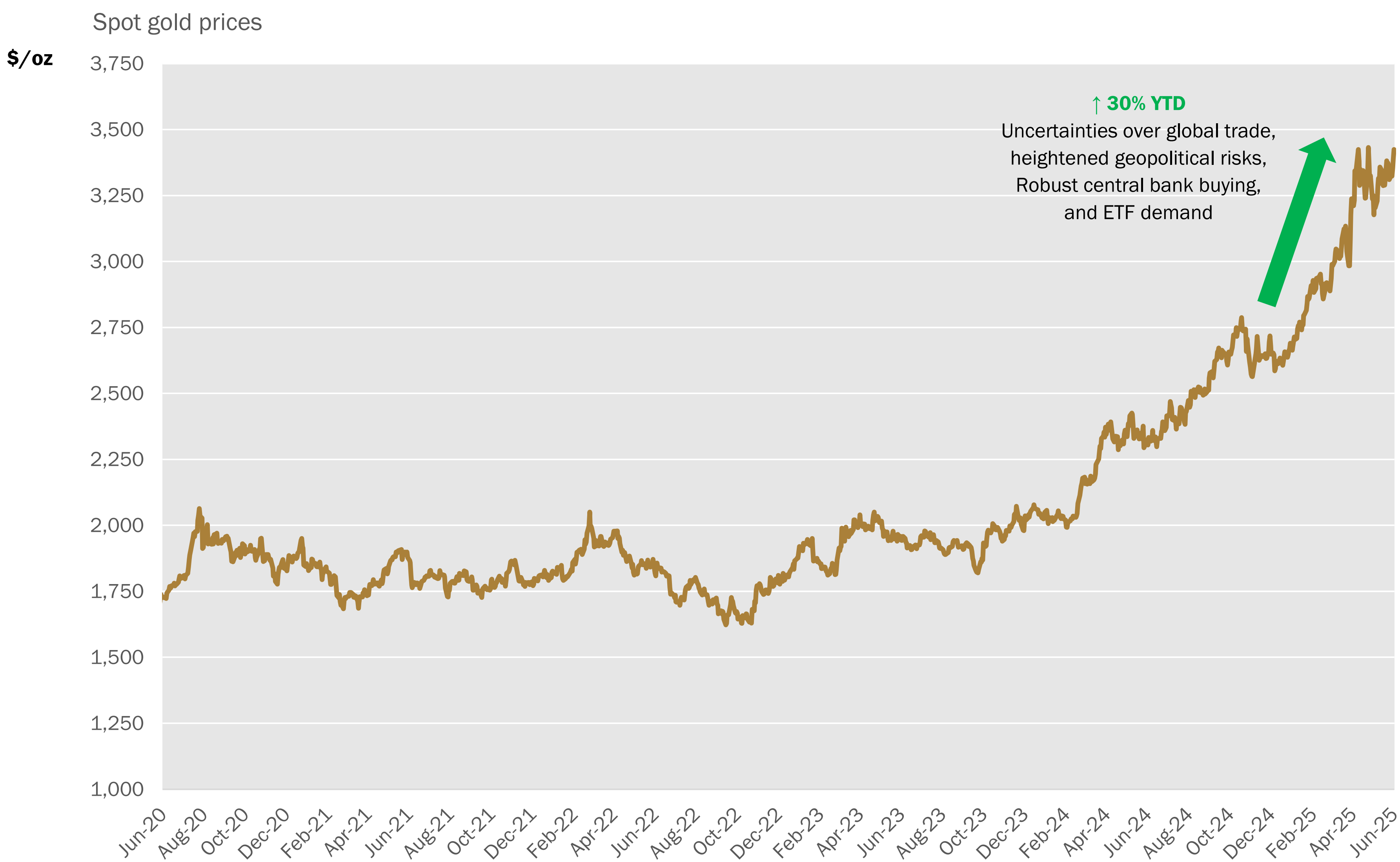
Gold prices hover in narrow range after hitting record high in April 2025



Source: Bloomberg

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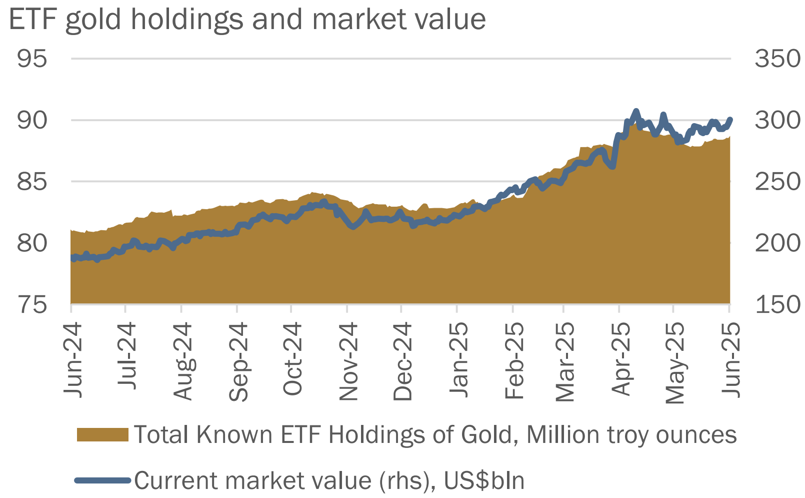
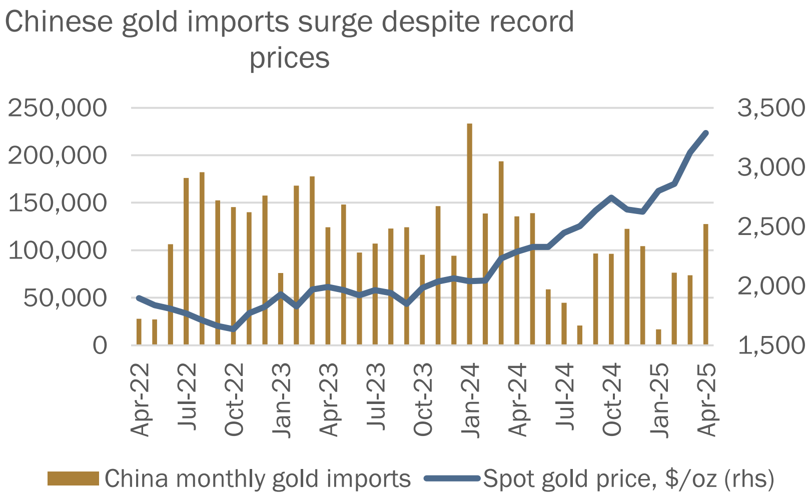
Global gold ETF flows turn negative in May 2025 as risk appetite rises

Million troy ounce
US$bln



Source: Bloomberg

Kilogram



Source: Bloomberg, The People's Bank of China

Gold ETF saw net outflows in May 2025

- In May 2025, global gold ETFs saw a reversal in momentum, recording net outflows of US$1.8 billion, the first monthly loss since November 2024. This decline was led by North America (-US$1.5bn) and Asia (-US$489mn), while Europe bucked the trend with inflows of US$225 million. As a result, total assets under management (AUM) for global gold ETFs fell by 1% to US$374 billion, and holdings dropped by 19 tonnes to 3,541 tonnes.
- The outflows were largely driven by improved investor risk appetite due to easing US-China trade tensions and rising US Treasury yields, which increased the opportunity cost of holding gold.

China's gold imports surge to 11-month high

- China's gold imports surged to 127.5 metric tons in April, the highest level in 11 months, marking a 73% increase from the previous month despite record-high bullion prices. This sharp rise was driven by strong investor demand and the People's Bank of China's decision to ease import restrictions by issuing new quotas to select commercial banks.
- The surge reflects growing interest in gold as a hedge against geopolitical uncertainty and trade tensions, with both institutional and retail investors increasing their exposure. While gold prices slightly retreated in May amid easing trade tensions, continued central bank purchases aimed at diversifying away from the US dollar are expected to provide continued support for bullion prices.

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China continued to add gold reserves despite record-high bullion prices

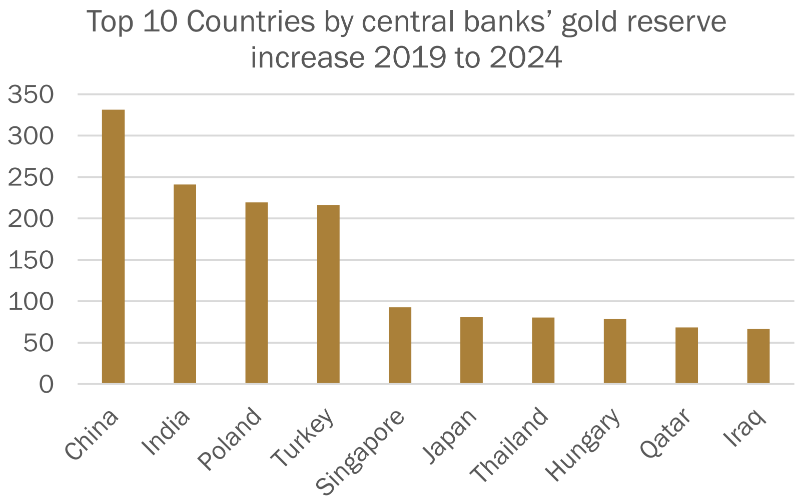
Million troy ounce
$/oz

Source: Bloomberg, The People's Bank of China

PBOC increased gold reserves for the 7th straight month

- China's central bank increased its gold reserves for the seventh consecutive month in May, adding 60,000 troy ounces and bringing the total to 73.83 million fine troy ounces. This continued accumulation reflects the PBOC's strategy to diversify its holdings away from the US dollar, especially amid global economic uncertainties and fluctuating gold prices.
- As of the end of May, gold accounted for about 7% of China's international reserve assets, remaining well below the global average of around 15%, indicating room for further accumulation. The PBOC's ongoing gold purchases will continue to support upward momentum in global gold prices.

Tonnes



Source: BullionVault

China tops gold reserve increases in the past five years

- Over the five years to 2025, central banks around the world have continued to bolster their bullion reserves as a hedge against inflation, currency fluctuations, and geopolitical instability.
- China's gold reserves grew significantly to 2,279.6 tonnes by the end of 2024, marking a continued upward trend in accumulation. China was the country that increased its gold reserves the most between 2019 and 2024, followed by India, Poland, and Turkey.
- However, none of these countries top the list of the world's largest gold reserve holders. As of 2024, the top three countries with the largest national gold reserves were the United States, Germany, and Italy. China ranked sixth.

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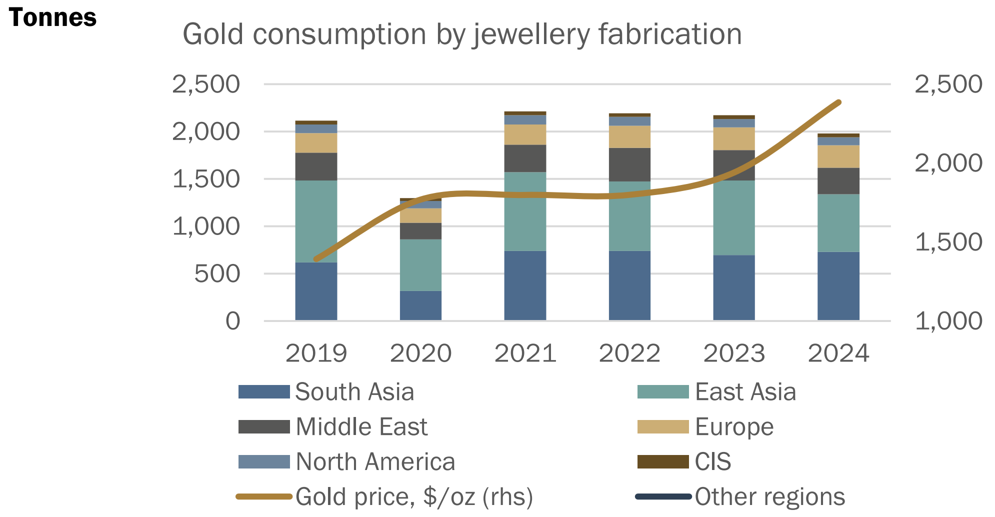
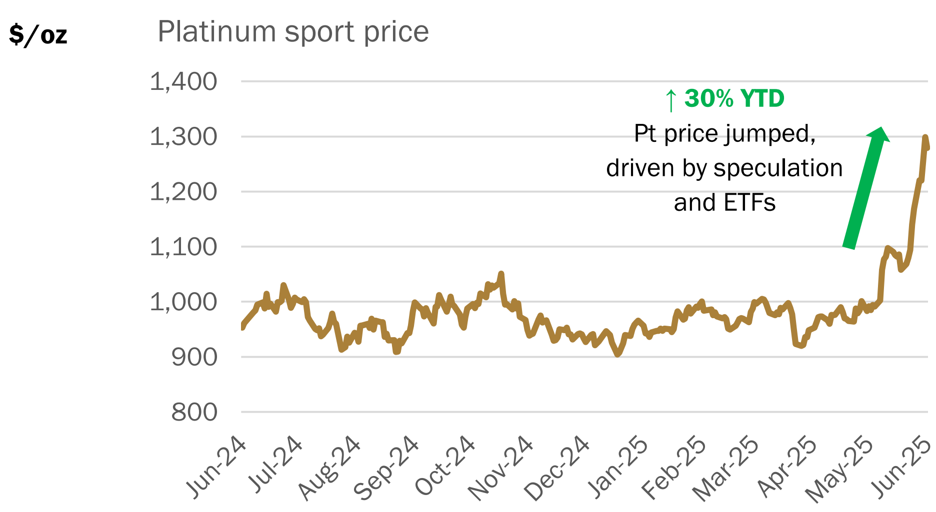
Pt surge is driven by speculations, rather than a demand shift from gold



Source: Metals Focus

Gold jewellery fabrication fell by 9% in 2024

- Global gold jewellery fabrication fell sharply by 9% in 2024 to the lowest level since 2010, excluding the pandemic-hit year of 2020. The primary driver of this decline was China, where fabrication dropped by 27% due to surging local gold prices, economic uncertainty, and a shift in consumer preference from jewellery to gold bars. Demand in the World. Ex-China was fairly resilient, only falling by 1% in the face of a 23% price rise.
- Looking ahead, the outlook for 2025 is even more bearish. Following a 19% year-on-year drop in Q1, global gold jewellery fabrication is forecast to decline by 16% for the full year, largely due to the continued price rally. China and India are expected to account for 80% of the total decline.



Source: Bloomberg

Platinum is unlikely to take significant jewellery market share from gold

- While some regions have seen bridal jewellery preferences shift from white gold to platinum, platinum jewellery is unlikely to capture a significant share of the broader gold jewellery market. The recent surge in platinum prices is mainly driven by speculation and ETFs. Besides, Short-covering and the thinner liquidity compared to the gold market have also contributed to the recent platinum price jump.
- Platinum remains an expensive choice for bridal jewellery, and, given the sluggish economy, consumer downtrading, and falling marriage rates, the price surge does not necessarily reflect a robust consumer demand. In many markets, gold continues to be strongly preferred for jewellery due to its long-standing symbolic value as a representation of wealth, status, and happiness.

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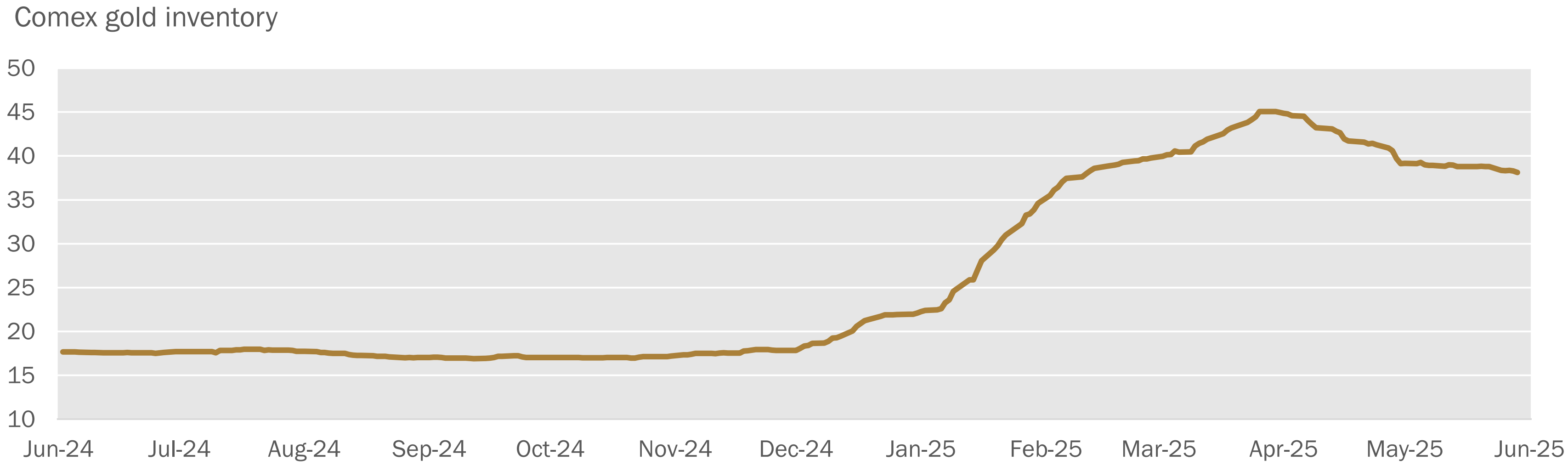
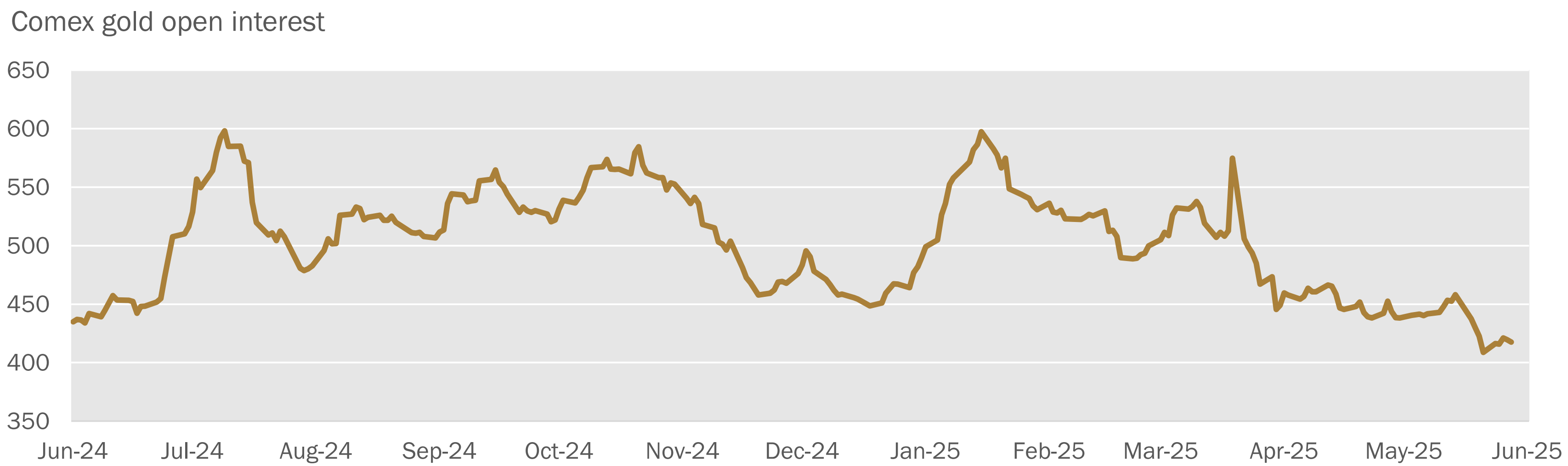
Easing China-US trade tensions led to reduced market participation

Million troy ounce



Source: COMEX

Number of contracts ‘000



Source: COMEX

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Gold price outlook

Short term	
Bullish	• Tariff-driven inflation yet to materialise, raising bets for the Fed to start cutting interest rates. • Significant downward revisions to March and April's NFP revealed underlying softness in the US labour market. • Iran nuclear deal negotiation is deadlocked, while geopolitical tensions in the Middle East continue to escalate. • China's manufacturing activity shrank for a second month in May, reflecting tariff impacts. • The PBOC expanded its gold reserves for the seventh month in May, reflecting its strategy to diversify its holdings away from the US dollar.
Bearish	• The US and China achieved a framework over export restrictions on rare earths and semiconductors after two days of talks in London, easing trade tensions. • The recent surge in platinum prices could divert some investor interest away from gold, but this trend is unlikely to last long.
Medium to long term	
Bullish	• Central banks' demand for gold as a store of wealth and hedge against risk shows no sign of weakening under Trump's tariff threats. • Tariff impacts on US inflation and the economy are just beginning to unfold. Investor confidence in the U.S. economy has not fully recovered; recession risk remains. • Disappointed economic performances have increased the likelihood that China may fall short of its 5% GDP growth target this year, deepening investor pessimism.
Bearish	• If the US achieve substantial progress in tariff negotiations, resulting in significant easing of trade barrier, market risk appetite would like to strengthen considerably. • Global gold jewellery fabrication is forecast to decline further in 2025, largely due to the record-high bullion prices.

Source: ICBCS

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