

GOLD'S NEW HIGHS: SEPARATING GOLD STRENGTH FROM DOLLAR WEAKNESS

The dollar price of gold has reached a series of new highs during 2024 and 2025, reigniting debate over what is really driving the move. Is gold rising because investors around the world are bidding it up, or because the dollar has weakened and made gold look stronger in dollar terms? The distinction matters. For investors and wealth managers, understanding whether gold's rally is global or currency-driven can change how we think about diversification, hedging, and the durability of current price levels.

To clarify this question, we constructed a simple analytical framework designed to separate the "gold strength" component from the "dollar weakness" component of gold's performance. Gold trades globally in many currencies, so by comparing how its price behaves in dollars with how it behaves in euros, yen, pounds, yuan, and Canadian dollars, we can see whether the rally is broad-based or largely a mirror image of the U.S. currency.

A USD-neutral lens

The analysis begins by re-denominating the daily price of gold into five major non-USD currencies (EUR, GBP, JPY, CNY, and CAD) using exchange rate data from 2018 onward. We then calculate daily log returns for gold in each currency and take their average to form what we call a USD-neutral gold return. This measure captures the change in gold's value that is common across multiple currencies, abstracting from the influence of any single one. The difference between the USD-quoted return and this neutral benchmark represents the USD effect, that is, the portion of the dollar price change that can be attributed purely to moves in the dollar.

This decomposition allows us to express each day's dollar-denominated gold return as the sum of two forces:

$$\text{Gold (USD) return} = \text{USD effect} + \text{Gold strength}$$

When gold rises in every major currency, the strength is intrinsic. When it rises mainly in USD terms but not elsewhere, the move reflects a weaker dollar rather than stronger demand for gold itself.

A dynamic test: the VAR model

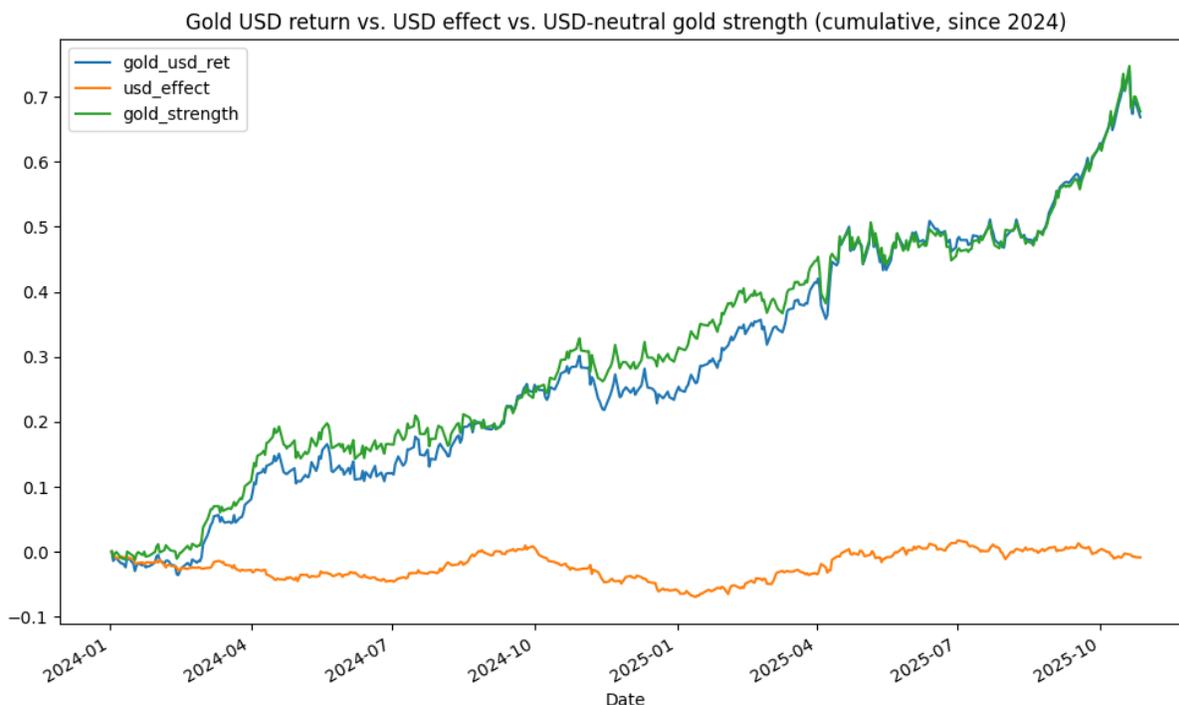
To add statistical rigor, we extended the analysis with a simple vector autoregression (VAR). This model examines how daily changes in the U.S. Dollar Index (DXY), oil prices, the VIX (a proxy for market risk), and gold interact with one another. Using a standard Cholesky identification (ordering variables as DXY → oil → VIX → gold), we estimate how much of the short-term variation in gold returns can be attributed to shocks in the dollar versus shocks in other markets.

The model uses seven lags, as suggested by information criteria, and looks at forecast error variance decomposition (FEVD) over horizons of 1, 5, and 10 trading days. This approach quantifies how much of gold's day-to-day movement is statistically "explained" by movements in the dollar or by other factors such as oil or market volatility.

What the numbers show

The results are clear. Across the 2024–2025 period, the cumulative USD-neutral component (the “gold strength” line in the accompanying chart) accounts for most of the increase in the dollar price of gold. The USD effect, by contrast, oscillated around zero and was modestly negative for much of the year. In other words, gold’s rally has been largely global rather than merely a function of a weaker dollar.

The VAR analysis points to the same conclusion. In the short term, dollar shocks explain roughly 17% of gold’s variance, oil about 2%, and the VIX less than 1%. The remaining 80% is gold’s own dynamic, reflecting movements not directly tied to other macro variables. Even when the dollar strengthened periodically, gold often continued to rise, suggesting that other forces, such as official-sector buying, low real yields, and geopolitical uncertainty, have been dominant.



Why the distinction matters

For wealth managers and clients, this distinction has practical significance. If gold’s rally were mainly about a soft dollar, a reversal in the currency could easily unwind recent gains. But if the advance reflects genuine, broad-based demand for gold across currencies, the move could prove more durable. In that case, dips linked to short-term dollar rebounds might represent consolidation rather than the start of a decline.

A USD-driven rally ties the case for gold to a view on the dollar itself; a gold-driven rally, by contrast, speaks to deeper portfolio themes, such as diversification in a world of negative real yields, central-bank accumulation of reserves, or a search for stores of value in a fragmented global system. For clients holding multi-currency portfolios or international exposures, understanding which of these narratives dominates helps in determining whether gold is acting as a currency hedge or as an independent asset.

Looking ahead

As we move through 2025, the analysis suggests that gold's trajectory will depend less on short-term fluctuations in the dollar and more on the persistence of those intrinsic drivers: central-bank buying, real interest rates, and geopolitical risk. A renewed upswing in U.S. real yields could challenge the current equilibrium, but unless those structural supports fade, the evidence points to continued resilience in the global gold price.

For now, the data imply that the “gold strength” story outweighs the “dollar weakness” one. The world has been buying gold, not just the dollar price of it.

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