Where is the gold price headed?

The prices of gold and silver have partially recovered from their temporary slump. We show how things could develop going forward.

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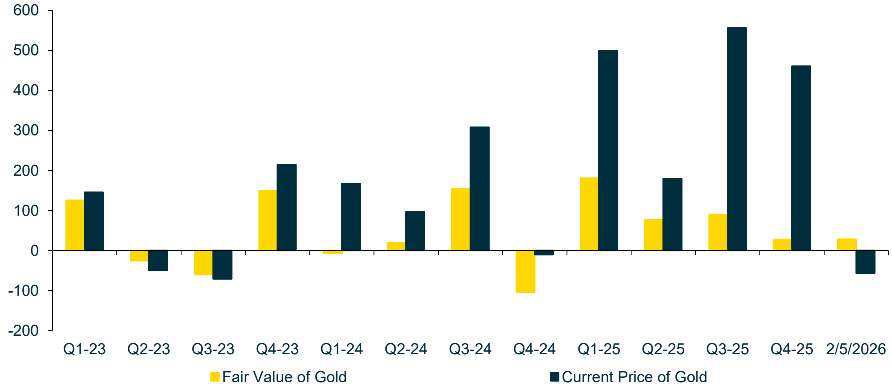
Correction in gold and silver was indicated..

Gold and silver experienced a historic rollercoaster ride over the past week. Massive price increases in just a few weeks were followed by a sharp drop in prices. In recent days, prices have recovered and are still trading at just over 10% for gold and roughly 5% for silver above the levels seen at the beginning of 2026, raising the question of whether a further price correction could occur. To answer this, let's look at the reasons for the rise. [1]

...in view of fundamental overvaluation

Unlike in most previous cases, the rise in the price of gold in recent months has not been accompanied by a significant decline in interest rates or an increase in (long-term) inflation expectations, which make gold more attractive as a non-interest-bearing investment and store of value. For the most important capital market by far, the US, only two further interest rate cuts to a key interest rate level of around 3% are expected by the end of the year. In addition, long-term US inflation expectations have hardly changed at just under 2.5%. Based on a model that estimates changes in the price of gold using macroeconomic factors, the price of gold has still risen by around USD 2,000 more over the last three years than would be justified by the fundamental factors on the basis of the model after the recent slump (see box below).

Chart 1 - Gold price recently risen significantly more than fundamentally justified
Change in the price of gold based on a fair value model compared to actual performance, in USD per troy ounce



Source: Bloomberg, Commerzbank Research

Gold has emerged as the ultimate safe haven investment...

The reason for this sharp rise is likely to be the many uncertainties that have arisen in recent years, which have increased demand for gold as the ultimate safe haven.

One important driver here was certainly Russia's attack on Ukraine. After a long period during which war in Europe was unthinkable for most people, many now see the realistic danger of a major war. This fear has been exacerbated by the conflicts in the Middle East and China's threats against Taiwan.

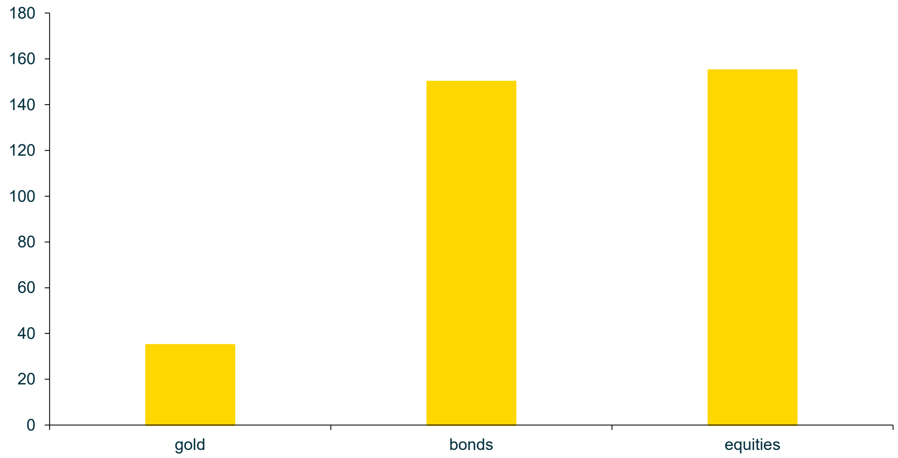
In addition, in response to Russia's attack, its foreign exchange reserves were frozen by Western sanctions, which is likely to have fueled concerns among other central banks that something similar could happen to their own foreign exchange reserves.

The unpredictable policies of the US administration under President Trump have also increased concerns about the stability of the global political and financial order. In particular, Trump's ongoing attacks on the Fed have led some to fear for its independence, which, together with the US government's aggressive tariff policy, could undermine the US dollar's status as a safe haven. Added to this are fiscal risks in the wake of rising government debt in many industrialized nations whose bonds and currencies have been considered safe investments.

The fact that gold has been able to establish itself as the ultimate safe haven in this environment is likely due to the fact that it is institutionally independent, i.e., it is not controlled by any state or government institution and is therefore not exposed to any default risk. Secondly, the precious metal has an unparalleled history as a store of value. Already in ancient Egypt, gold was considered a symbol of immortality. In short, gold is seen as an investment that remains stable in nearly any crisis, be it financial or political.

It is sufficient for investors to assess the probability of such a crisis as only marginally higher and as a result to shift a small portion of their portfolio into gold. This is because the resulting additional demand meets a relatively small market. The **World Gold Council** estimates the amount of gold ever mined at 220 thousand tons, which would correspond to approximately USD 35 trillion at current market prices. In contrast, the estimated market capitalization of the global bond and global stock markets is more than four times as high (Chart 2). In addition, a much larger proportion of gold is likely to be unavailable for sale than bonds and stocks, as a considerable amount of gold is used in jewelry, for example, or held as reserves by central banks.

Chart 2 - Gold market is comparatively small
Total gold stocks, market capitalization, end 2025, for bonds end 2024, in USD trillions



Source: WGC, BIS, Bloomberg, Commerzbank Research

… which is likely to be dampened only by a significant decline in (geo)political risks

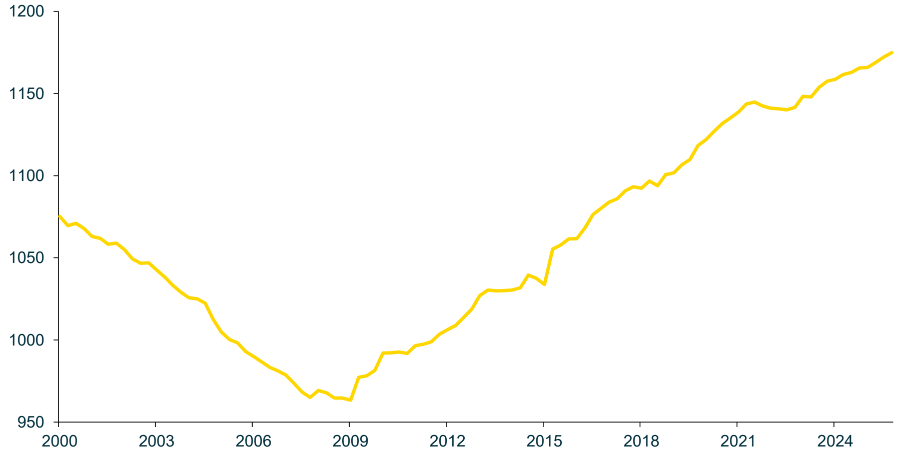
In recent months, these factors have certainly been exacerbated by the market's upward momentum, with many investors jumping on the bandwagon. Some of these investors may now have used Kevin Warsh's nomination as the new Fed chair as an opportunity to realise profits. While under his leadership monetary policy may become more expansionary than it is currently, he is unlikely to pursue an extremely loose monetary policy with all its associated risks.

Even though the gold price has now recovered a large part of its recent losses, the past few days have shown that an easing of these uncertainties could halt the gold price's surge at any time and trigger a correction. The following could trigger a further correction in the gold price in the future:

- a de-escalation of conflicts, such as an end to the war in Ukraine and the resulting withdrawal of Western sanctions against Russia,
- a return to multilateralism, e.g., through the withdrawal of US tariffs and a commitment to international agreements (whether on trade or security),
- governments implementing fiscal consolidation measures that stabilize or even reduce debt ratios,
- open resistance by the US Federal Reserve to Trump's demands for significantly lower interest rates.

But even if uncertainty were to decrease significantly, the price of gold would hardly plummet. As we have seen repeatedly in recent months, investors have used major price setbacks as buying opportunities, which has usually led to a rapid recovery in prices. This has also been observed in recent days. In addition, gold has become an important reserve asset for many central banks (Chart 3). Those who had already planned to buy gold could take advantage of lower prices to make additional purchases.

Chart 3 - Central banks have increased their gold reserves since the financial crisis
in million ounces



Source: IMF, Commerzbank Research

Prices are unlikely to rise as sharply as they did at the beginning of the year

However, if uncertainties persist, the price of gold – and, as a result, the price of silver – is likely to have further upside potential. That said, prices are unlikely to rise as sharply as they did in the first few weeks of this year. The recent price slump is likely to have deterred many investors and made them more sensitive to risks. The fact that gold is institutionally independent also means that, unlike a traditional currency, no central bank will step in if there are excessive market moves.

In the medium term, we expect gold and silver to stabilize and recover somewhat from their recent decline. In addition to ongoing political uncertainty, this is supported above all by our expectation that the US Federal Reserve is likely to cut its key interest rates more sharply than currently priced in by the market due to political pressure.

Box: A Model for the Fair Value of Gold

We estimate the change in the fair value of gold based on a linear model, defining the real interest rate (based on 10-year inflation-indexed US government bonds), the dollar index, the consumer price index, nominal GDP, and consumer confidence as the most important drivers of the gold price. The coefficients for real interest rates, the dollar index, and the consumer price index are statistically significant, while those for nominal GDP and consumer confidence (University of Michigan) are not. Higher consumer prices cause the fair price of gold to rise, while higher real interest rates – the most important driver – and improved consumer sentiment – a proxy for perceived uncertainty – cause the fair price of gold to fall:

$$\Delta \mathrm{Gold}_t = 18.6 - 154.4 \cdot \Delta RIR_t - 7.5 \cdot \Delta DXY_t + 11.3 \cdot \Delta CPI_t - 2.2 \cdot \Delta Cons.Sent_t + 0.03 \cdot \Delta Nom.GDP_t$$

The model was estimated for the period from January 2003 to December 2025 based on quarterly data. In order to determine the fair price of gold at the current margin, the most recent data was used in the model estimation to obtain the most up-to-date fair value possible. According to the R^2, the quality of the model is around 0.36, i.e., 36% of the variation in the gold price can be explained by the variation in the exogenous variables.

[1] Although the price of silver has fluctuated even more sharply than the price of gold in recent weeks, we will focus on the price of gold in the following. There were some silver-specific factors, such as growing concerns about a physical shortage of silver. However, the stronger rise in the price of silver in recent months is likely to be primarily due to the fact that it had previously risen less and was therefore seen as undervalued. In addition, the correlation between the gold and silver prices remains high, i.e., the silver price rises when the gold price rises, and vice versa. Thus, the trend in gold is likely to continue to set the pace for silver. (back to text)

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This report was completed 6/2/2026 07:23 CET and disseminated 6/2/2026 07:23 CET.

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