GoldSquawk

SPECIAL REPORT · OCTOBER 2026

Oil shocks now test gold through rates before refuge

GoldSquawk Research

Key takeaways

- Recent 2026 price action repeatedly showed gold weakening when oil rose, as traders focused on higher-for-longer US policy and revived hike risk rather than on a pure inflation-hedge or haven response[1,2,3,4,5].
- The macro backdrop still supports that framing: US September CPI accelerated to 3.7% y/y, with gasoline up 9.1% m/m and energy up 20.4% y/y, while the Fed had already raised rates by 25bp on 16 September to 3.75%-4.00% and said inflation remains elevated[6,7].
- The headwind channel is stronger when long-run inflation expectations stay anchored. BIS noted that during the July 2026 oil surge, US 10-year inflation swaps barely moved and the rise in longer-dated yields was driven mainly by the real component[8].
- Energy shocks can still support gold, but mostly in different regimes: if geopolitical stress escalates into a broader haven bid, if inflation proves persistent enough for gold to catch up, or if oil becomes a growth shock that ultimately pulls yields lower[9,10,11].
- Structural support matters in the background. WGC says central banks have accumulated an average of 1,000t per year over the past four years versus 500t in the prior decade, helping explain why cyclical macro headwinds do not fully define the gold market[12].

Figure 1: Gold has faced a higher-yield backdrop over 12 months



Source: COMEX gold futures and CBOE 10-year yield index via Yahoo Finance, as of 15 October 2026.

The inflation trade has become more conditional

- The historical template linked higher oil with higher inflation fears and stronger gold, and LBMA notes that gold has often risen with oil, inflation and interest rates on average. But LBMA's 2026

assessment is that the relationship may have weakened and may no longer be stable[13,14].

- That shift matters because the current market is asking which channel dominates: inflation hedge and geopolitical hedge, or tighter policy, stronger real yields and a firmer dollar. WGC likewise argues that persistently higher inflation can benefit gold, but gold may initially lag other inflation-sensitive assets and only catch up if inflation persists[9,14].
- The chart context is consistent with a rates-sensitive regime. Over 12 months, gold was down 0.5% to $4,179.4/oz while the US 10-year Treasury yield rose from 4.05% to 5.09%, a 104bp increase [gold_vs_yields].

Figure 2: Gold remains below both major moving averages

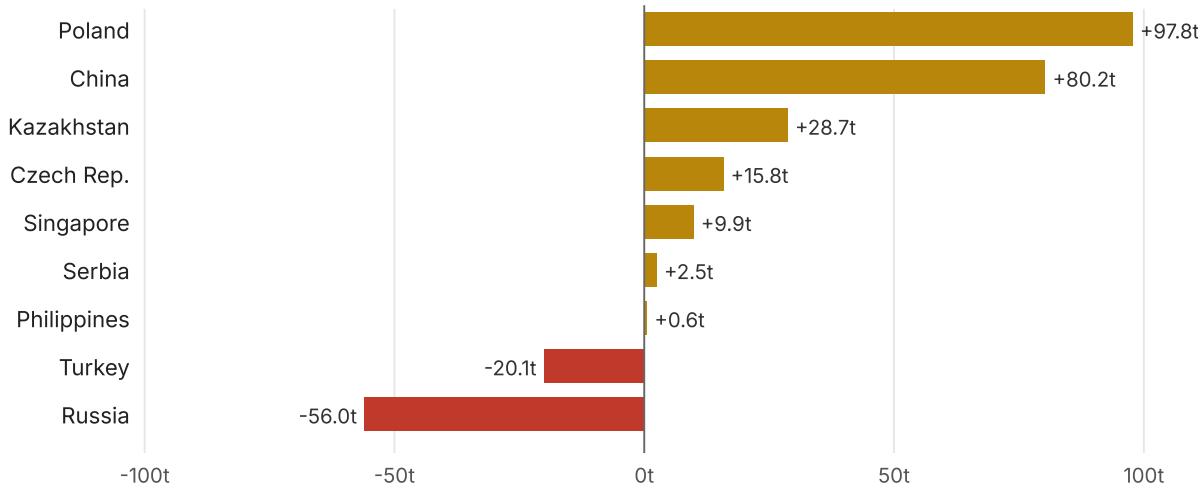


Source: COMEX gold futures daily closes via Yahoo Finance; GoldSquawk calculations, as of 15 October 2026.

Why higher oil has often been a headwind in 2026

- Reuters-based market coverage repeatedly described the same reflex during the June-July 2026 oil shock: on 29 June, 10 July, 13 July and 23 July, gold weakened as higher crude prices lifted inflation fears and rate-hike expectations[5,4,3,1]. Reuters-branded coverage on 12 October said gold slipped near $4,160 as Middle East tensions fuelled rate-hike concerns[2].
- The macro data validate that market interpretation. US September CPI accelerated to 3.7% y/y, core CPI was 2.6% y/y, energy was up 20.4% y/y and gasoline rose 34.2% y/y, while gasoline accounted for more than half of the monthly CPI increase[6]. The Fed then matters directly because it had already raised rates on 16 September by 25bp to 3.75%-4.00% and stated that inflation remains elevated[7].
- BIS adds an important nuance: during the July oil surge, US 10-year inflation swaps barely moved, meaning the rise in yields was driven mainly by the real component rather than by unanchored long-run inflation expectations[8]. For gold, that is a less supportive mix than a classic inflation panic.
- Technically, gold closed at $4,179.4/oz on 15 October, below its 50-day moving average of $4,377.0 and 200-day moving average of $4,541.8. It was down 4.7% over one month, though still up 4.0% over three months [gold_technical].

Figure 3: Official-sector buying remains a structural support



Source: IMF International Reserves and Foreign Currency Liquidity data; GoldSquawk calculations, as of 15 October 2026.

What would make oil bullish for gold again

- An energy shock can still be positive for gold if it becomes a broader geopolitical crisis rather than a narrow inflation shock. WGC says a 100-point monthly increase in the geopolitical risk index has historically pushed gold prices up by 2.5%, while BIS argues gold's response to geopolitical shocks is state-dependent and can strengthen under stressed conditions[9,10].
- A second supportive regime is persistent inflation. WGC's 2026 outlook says gold can lag commodities at first during an inflation spike, but catch up and outperform when inflation proves persistent enough to broaden beyond energy[9].
- A third route is growth damage. OPEC has cut its 2026 oil demand growth forecast to 400,000 bpd from 1.4 million bpd at the start of the year, and AP, citing the IEA's October report, said global oil demand is expected to fall by 2.6 mbpd on average in 2026[15,11]. If the market shifts from inflation damage to growth damage, yields can fall and gold can recover.
- Structural demand remains relevant in that transition. WGC says central banks have accumulated an average of 1,000t per year over the past four years, versus 500t per year in the prior decade[12]. Year-to-date official purchases in the chart show Poland +97.8t, China +80.2t and Kazakhstan +28.7t among the notable additions [central_bank_buying].

Scenarios

- **Hawkish energy shock:** Oil rises, headline inflation stays elevated and markets price fewer cuts or renewed hike risk. In that regime, higher real yields and tighter financial conditions tend to cap or pressure gold, even if geopolitical headlines remain tense[1,8,6,7].
- **Persistent inflation hedge:** Energy-driven inflation broadens and proves durable rather than temporary. Gold may move from lagging the initial commodity shock to acting more like a strategic inflation hedge, especially if confidence in policy control weakens[9,16].
- **Crisis or growth-scare turn:** Supply disruption escalates into wider geopolitical stress, or the oil shock causes enough demand destruction and growth damage for yields to roll over. In that setting, haven demand and lower yields can become more important than the initial hawkish inflation impulse[10,15,11].

Levels to watch

- Gold last close: $4,179.4/oz [gold_technical]
- 50-day moving average: $4,377.0/oz [gold_technical]
- 200-day moving average: $4,541.8/oz [gold_technical]
- 52-week low: $3,960.5/oz [gold_technical]
- 52-week high: $5,318.4/oz [gold_technical]

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Glossary

Real yields: Bond yields adjusted for inflation expectations. Rising real yields usually increase the opportunity cost of holding non-yielding gold [9].

Inflation swaps: Market-based contracts used to infer expected inflation over a given horizon. BIS cited 10-year inflation swaps to show long-run inflation expectations stayed relatively anchored during the July oil surge [9].

Front-end yields: Yields on shorter-dated government bonds, which are especially sensitive to expected central bank policy changes [17][12].

Demand destruction: A fall in consumption caused by high prices or weaker activity. In oil, it can turn an inflation shock into a growth shock [7][16].

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