UAB: Beyond the Safe Haven – What Really Drives Gold Prices?

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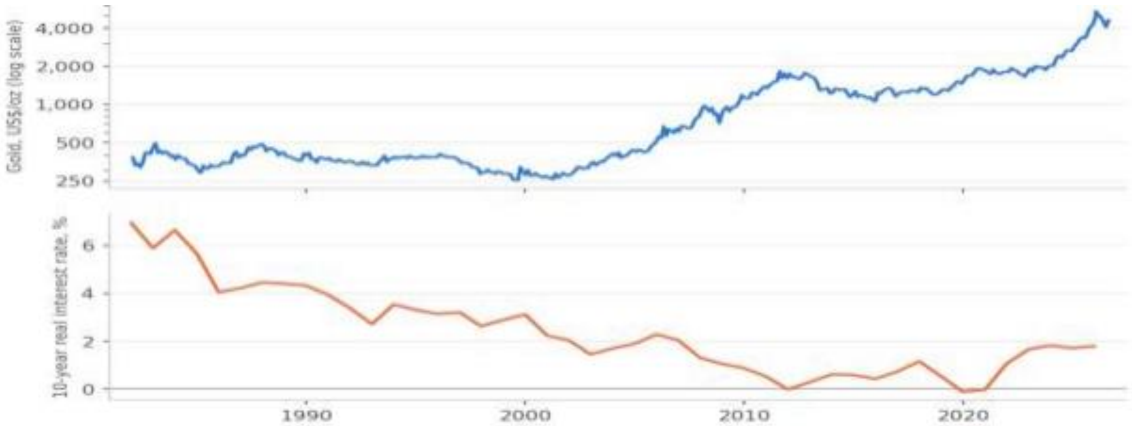
Contact Information

Jana Boumatar

jana.boumatar@blom.com.lb

Gold has traditionally been regarded as a safe-haven asset, offering protection against inflation, geopolitical uncertainty, and financial instability. However, its historical performance suggests that wars, economic crises, and rising energy prices do not necessarily translate into sustained price increases. In its September 2026 report, "Gold Beyond the Safe Haven: What Has Really Driven Its Price Since 1980?", the Union of Arab Banks (UAB) examines 46 years of gold-price movements to identify the underlying forces shaping its performance. Drawing on data from the World Gold Council, the Federal Reserve, and the US Energy Information Administration, the report argues that gold responds primarily to the financial consequences of external shocks, particularly changes in US real interest rates and the dollar. It also highlights the growing importance of central-bank purchases and investment demand in reshaping the gold market.

According to the UAB, real interest rates represent the most consistent driver of gold prices. Since gold generates neither interest nor dividends, rising real yields increase the opportunity cost of holding it relative to interest-bearing assets such as US Treasury securities. Conversely, declining real yields generally support gold by reducing the attractiveness of competing investments. The US dollar constitutes another major influence, as its depreciation makes dollar-denominated gold less expensive for buyers using other currencies. Central-bank purchases provide a third source of support by increasing official sector demand, while geopolitical risk may temporarily raise investors' willingness to hold gold. However, these effects can be offset when external shocks simultaneously strengthen the dollar or push real yields higher. The UAB's analysis of February 2006 to July 2026 shows that gold's monthly returns had a correlation of -0.42 with changes in US ten-year real yields and -0.32 with the broad dollar, compared with only +0.03 for oil prices. Its multivariate regression also identifies a strong negative relationship with real yields, while the oil-price effect is statistically insignificant.



Source: UAB, WGC

The historical record illustrates how these financial conditions have shaped gold's performance. Gold reached $850 per ounce on January 21, 1980, amid the Iranian Revolution, the Soviet intervention in Afghanistan, the second oil shock, and US inflation averaging 13.5% that year. Despite these conditions, its inflation adjusted value declined by approximately two-thirds between January 1980 and March 1985. The UAB attributes this downturn primarily to the Federal Reserve's aggressive monetary tightening, with the federal funds rate averaging 16.4% in 1981 and ten-year real yields reaching 6.9% in 1982. Meanwhile, the trade-weighted dollar appreciated by 40% between 1980 and 1985. Gold remained under pressure throughout much of the 1990s, declining from $396.50 in early January 1990 to $253.95 in July 1999, despite several geopolitical and financial crises. During the 1990 Gulf War, gold gained approximately 9% following Iraq's invasion of Kuwait but subsequently surrendered those gains, while oil prices surged 113% between June and October. A more significant turning point occurred in September 1999, when fifteen European central banks signed the Washington Agreement on Gold, limiting collective sales to 2,000 tons over five years. Gold subsequently gained 26% in six weeks, demonstrating the influence of official sector decisions on market expectations.

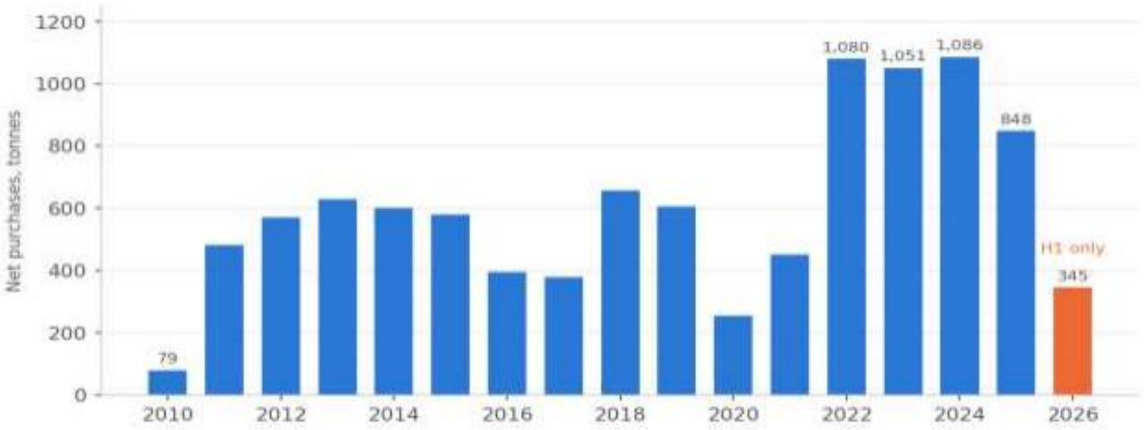
Gold subsequently entered a prolonged rally, rising from $259.25 in April 2001 to $1,824 in August 2011, an increase of 603%. Although this period included the September 11 attacks, the wars in

Afghanistan and Iraq, the oil-price boom, and the global financial crisis, the UAB associates the sustained appreciation primarily with falling real yields and dollar weakness. Between 2001 and 2011, the trade-weighted dollar depreciated by 34%, while the US ten-year real interest rate declined from 2.24% to 0.53%. The 2008 financial crisis further challenged gold's reputation as an unconditional safe haven: between July and November, its price fell 24% as investors liquidated assets to meet margin calls and the dollar strengthened. Gold recovered following the introduction of quantitative easing and renewed declines in real yields, eventually reaching $1,921 in September 2011.

The following years reinforced the importance of monetary conditions. Gold declined from $1,824 in August 2011 to $1,060 by December 2015, a loss of 42%, as real yields recovered and the dollar strengthened. In 2013 alone, the Federal Reserve's signal that it would reduce asset purchases contributed to a 110-basis-point increase in real yields between May and year-end, while gold recorded an annual loss of approximately 29%. The COVID-19 pandemic subsequently reversed these conditions, with ten-year real yields remaining negative for 27 consecutive months from February 2020, supporting gold's recovery. However, the inflationary surge of 2022 demonstrated that gold is not a reliable hedge against inflation in every period. Despite US inflation reaching a four decade high and Russia's invasion of Ukraine, the World Gold Council's annual average gold price remained virtually unchanged at $1,800.10, compared with $1,798.60 in 2021. The UAB explains that aggressive Federal Reserve tightening pushed real yields up by 235 basis points during 2022, offsetting the potential support from inflation and geopolitical uncertainty.

The gold market nevertheless underwent a significant shift in 2024 and 2025, recording exceptional gains despite relatively high real yields and a strong dollar. According to World Gold Council data cited by the UAB, the annual average gold price rose from $1,940.50 in 2023 to $2,386.20 in 2024 and $3,431.50 in 2025, with the latter representing a 44% increase. Gold established 53 all-time highs during 2025, while total demand exceeded 5,000 tons for the first time, reaching a record value of $555 billion. Gold-backed exchange-traded funds (ETFs) absorbed 801.2 tons, and bar and coin demand reached a twelve-year high. These developments occurred even as real yields averaged 1.82% in 2024 and 1.71% in 2025. The UAB interprets this divergence as evidence that structural demand has become increasingly influential, allowing gold to appreciate under conditions that historically would have constrained its performance.

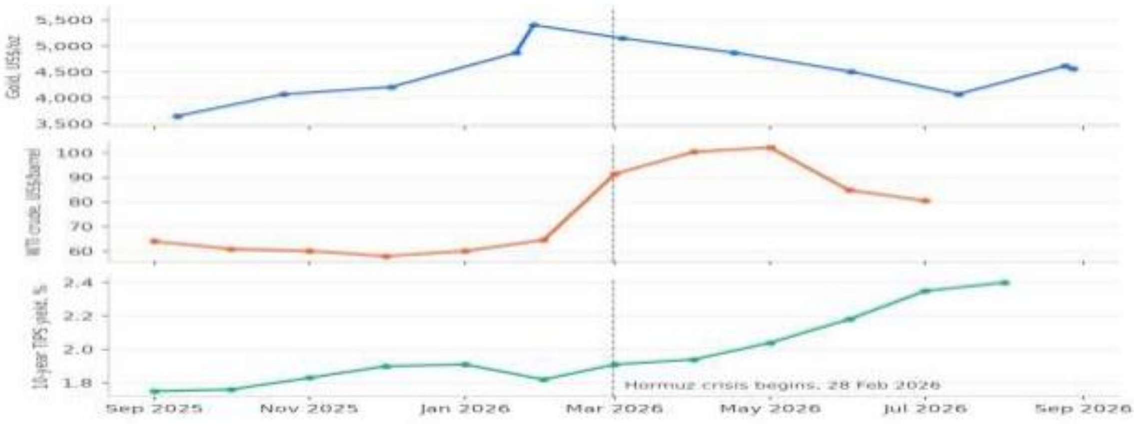
Central-bank purchases have been particularly important in supporting this shift. According to the World Gold Council, official-sector net purchases increased from 79 tons in 2010 to 1,080 tons in 2022, 1,051 tons in 2023, and 1,086 tons in 2024, marking three consecutive years above 1,000 tons. Purchases subsequently moderated to 848 tons in 2025. The UAB links this accumulation to reserve diversification, particularly as US federal debt increased from $28.4 trillion in the third quarter of 2021 to $39.1 trillion in the first quarter of 2026. Meanwhile, investment demand reached 2,175.3 tons in 2025, exceeding jewelry consumption of 1,542.3 tons. This change in demand composition is significant: jewelry purchases typically weaken as prices rise, whereas investment flows may accelerate during rallies. The growing importance of investment demand has therefore increased gold's sensitivity to market sentiment, potentially amplifying both upward and downward price movements.



Source: UAB, WGC

The 2026 Strait of Hormuz crisis provided a crucial test of gold's evolving market dynamics. According to the report, gold reached an all-time high of $5,405 per ounce on January 28, before the crisis began on February 28. Its first quarter average reached $4,872.90, approximately 70% above the corresponding quarter of 2025. However, the subsequent energy shock coincided with a sharp correction rather than a sustained safe-haven rally. Brent crude exceeded $100 per barrel on March 8 and peaked at $126, while West Texas Intermediate (WTI) rose from a monthly average of $60.04 in January to $102.13 in May, an increase of 70%. Rising energy prices contributed to higher inflation expectations, with US consumer prices increasing by 0.87% in March, 0.64% in April, and 0.47% in May. Consequently, the US ten-year inflation-protected Treasury yield rose from 1.82% in February

2026 to 2.40% in August 2026, while the broad dollar strengthened. Gold fell to $4,075.50 on July 14, representing a 24.6% decline from its January record.



Source: UAB, WGC

Importantly, the Federal Reserve did not raise its policy rate during this correction, with the effective federal funds rate remaining broadly unchanged at 3.64% in January and 3.63% in July. Instead, higher real yields reflected the bond market's reassessment of inflation risks and expectations for monetary easing. According to the World Gold Council's second quarter account, these conditions, alongside dollar strength, contributed to ETF outflows of 44.8 tons. Central banks, however, purchased 288.9 tons during the quarter, 62% more than a year earlier, highlighting the contrast between investment flows and official sector demand. Gold subsequently recovered as inflationary pressures moderated, closing at $4,562.75 on August 28, up 11.9% from its July low but still 15.6% below its January record. The UAB argues that this recovery reflected the easing of the inflationary consequences of the energy shock rather than simply a reduction in geopolitical tensions.

To further assess the relationship between gold and geopolitical risk, the UAB compares four major conflict related oil shocks: the 1990 Gulf War, the 2003 Iraq invasion, the 2022 Ukraine invasion, and the 2026 Strait of Hormuz crisis. The findings reveal considerable divergence between gold and oil. Following the 1990 invasion of Kuwait, oil rose 92% within three months, while gold gained only 9% before reversing its increase. After the 2003 Iraq invasion, oil declined 21% within three months, whereas gold appreciated approximately 20% over the following year, supported by dollar weakness. During the 2022 Ukraine conflict, oil rose 38% by the fifth month, while gold's maximum gain was 7%, before falling 8% below its starting level by the tenth month. In 2026, oil increased

70% between January and May, yet gold declined sharply from its pre-conflict record. These episodes challenge the assumptions that gold always rises during wars, reliably hedges inflation, or systematically benefits from higher oil prices. Instead, the report finds that geopolitical events influence gold primarily through their effects on real yields, the dollar, and investment demand.

The UAB's statistical findings reinforce these conclusions. Across 246 monthly observations between February 2006 and July 2026, gold's correlation with changes in real yields remained negative across all sub-periods, ranging from -0.40 to -0.52, while its correlation with the dollar ranged from -0.27 to -0.34. Oil exhibited a considerably weaker relationship, with correlations ranging from -0.06 to +0.10. The longer-term relationship between gold and the dollar has also weakened, with their annual correlation declining in magnitude from -0.74 during 1982-1999 to -0.10 from 2020 onward, reflecting the growing influence of official sector demand. Meanwhile, the correlation between annual gold returns and US inflation from 1983 to 2026 was only -0.11, while the correlation between central-bank purchases and annual gold returns during 2011-2025 was +0.09. The latter suggests that official purchases provide structural support rather than a reliable short-term timing signal. Based on these findings, the UAB identifies six indicators for investors and reserve managers to monitor: US ten-year real yields, the dollar, central-bank purchases, investment and ETF flows, oil prices, and geopolitical risk. Falling real yields, dollar weakness, and increasing official and investment demand are generally supportive of gold, while the effects of oil prices and geopolitical developments depend on their broader financial consequences.

Period	Months	Real yield	Dollar	Oil
February 2006 to July 2026	246	–0.42	–0.32	+0.03
2006 to 2011	71	–0.41	–0.27	+0.10
2012 to 2019	96	–0.52	–0.34	–0.06
2020 to 2026	79	–0.40	–0.34	–0.01

Source: UAB. WGC

Ultimately, the UAB's analysis demonstrates that gold is not an unconditional hedge against war, inflation, or financial uncertainty. Its historical performance has been shaped primarily by US real interest rates and the dollar, while the expansion of central-bank purchases and investment demand since 2022 has introduced an increasingly important structural source of support. Nevertheless, the 2026 correction illustrates that these newer forces have not eliminated gold's sensitivity to changing monetary expectations and financial conditions. For investors and reserve managers, the report's central conclusion is that understanding gold requires looking beyond geopolitical headlines and examining how external shocks influence real yields, currency movements, and demand.

For your Queries:

BLOM BANK s.a.l.

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Jana Boumatar

jana.boumatar@blom.com.lb

Research Department

Tel: +961 1 991 784

research@blom.com.lb

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