Gold's glittering run set for bumpy ride as rate-cut expectations suffer blow

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Investing.com -- Gold has glittered its way to record highs on a diet of geopolitical tensions, a weaker dollar, sluggish real yields, but with rate cut expectations suffering a major blow, the yellow metal's run could soon be on borrowed time.

"We would not add gold exposure at current prices, and view it as vulnerable on a 6-12 month horizon as forward markets will further unwind Fed rate cut expectations and bond yields have more upside," Strategists at MRB Partners said in a Friday note.

Gold prices have been riding a perfect macroeconomic storm higher that started in October last year and picked up pace in mid-February against a backdrop of broadly flat real U.S. interest rates and a stable U.S. dollar, the strategists added.

But in recent weeks the dollar and the level of bond yields, particularly real yields, the two dominant cyclical drivers of gold, have been on the up and up, paving the way to a much bumpier path higher for the yellow metal.

The jump in yields followed a slew of hawkish remarks from Federal Reserve officials including from chairman Jerome Powell, who earlier this week signaled that the recent upside surprises to inflation have knocked the Fed's confidence to begin cutting rates.

Traders now see the Fed's first rate cut in September rather than June, with just two rate cuts priced in for this year, compared with the six or seven estimated previously, and fewer than the three cuts for 2024 that the Fed had projected at its March meeting.

Gold has, however, appreciated despite this backdrop of higher yields and a stronger dollar, but is

"now quite overbought," the strategists warned. The precious metal's resilience could likely be explained by ongoing momentum as well as a jump in demand for safe-haven assets following a step up in geopolitical tensions.

Gold’s strength appears to "reflect momentum rather than any specific driver of performance," MRB Partners said.

But major chinks in gold's armor may not appear until central bank remove the excess liquidity sloshing around markets.

"We believe that gold will continue to receive support for as long as there is easy money being provided by central banks," the strategists added.