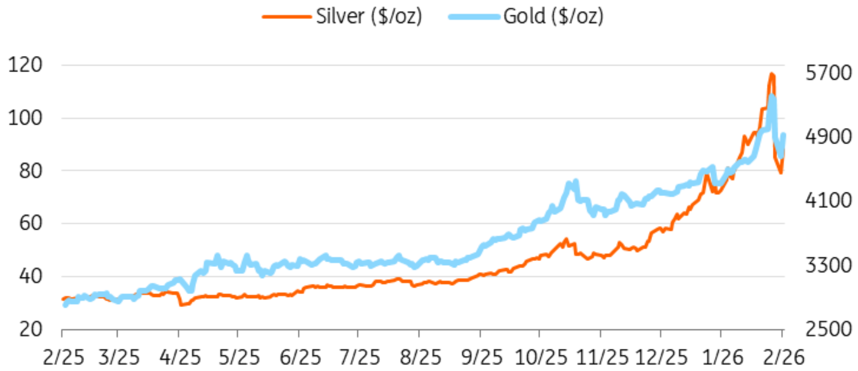
A gold and silver reset, not a reversal

Gold and silver have recovered part of their recent losses following one of the sharpest corrections seen in precious metals in over a decade

Gold has recovered some of its recent losses

After plunging from record highs amid elevated volatility, gold and silver attracted renewed buying interest as broader market conditions stabilised and the US dollar softened. While near-term volatility is likely to persist, we view the recent move primarily as a positioning-driven reset rather than a fundamental turning point.

Dip buying returning after historic sell-off



Source: Refinitiv, ING Research

Historic sell-off

The recent sell-off in precious metals was remarkable for both its speed and magnitude. On Friday, gold experienced its steepest one-day decline since 2013, while silver recorded its largest daily drop on record. The sell-off in silver and gold on Friday was followed by further weakness on Monday as investors unwound stretched long positions.

The selloff comes after an extraordinary three month rally in which gold surged from $4,000/oz to over $5,500/oz and silver jumped from around $50/oz to near $120/oz. The move was largely fuelled by a wave of speculative buying from China, from retail traders to larger equity funds rotating into commodities, with fresh flows pushing prices to extreme levels before last week's abrupt reversal.

The immediate catalyst for Friday's reversal was President Trump's intention to nominate Kevin Warsh as the next Fed chair. Warsh is viewed as the most hawkish candidate, which has sent the US dollar sharply higher and prompted widespread profit taking among investors who had been positioned for a weaker dollar.

As positioning became crowded and volatility picked up, exchanges and brokers began raising margin requirements - a warning sign that the market was becoming overstretched.

The move appears to have been driven largely by the unwinding of crowded speculative positions and forced liquidation, rather than a deterioration in macro or fundamental conditions.

As market stress eased, prices rebounded in Tuesday's trading. Spot gold recovered more than 6%, while silver rose by around 8%, retracing part of the earlier decline. This rebound suggests that the sell-off had overshot, amplified by momentum-driven trading and leverage.

From a medium-term perspective, the correction has helped to reset positioning and reduce excess froth. However, it also serves as a reminder that precious metals remain sensitive to shifts in liquidity, positioning and broader risk sentiment.

The recovery in metals coincided with a broader improvement across financial markets. At the same time, the US dollar weakened, reversing some of the strength seen during the initial phase of the sell-off.

Dollar remains key

The inverse relationship between precious metals and the US dollar has reasserted itself, leaving gold and silver particularly sensitive to near-term FX moves. Looking ahead, the dollar is likely to remain a key driver of short-term price action, with precious metals broadly moving in the opposite direction.

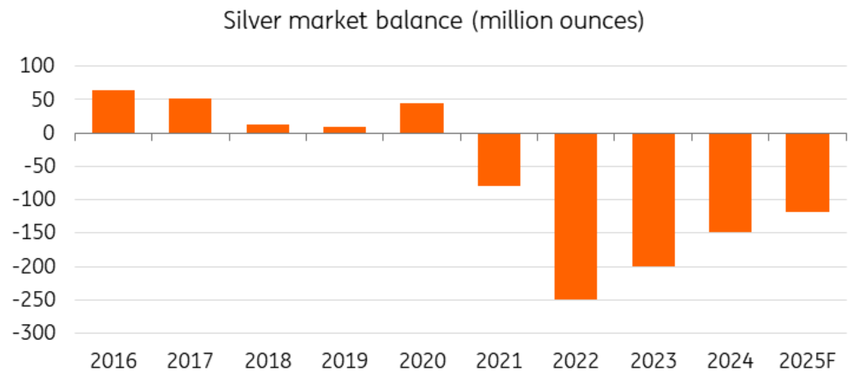
"Gold on steroids"

Silver is often nicknamed "gold on steroids" – it tends to move much more than gold in percentage terms. Its smaller market size and exposure to both investment and industrial demand tend to amplify price moves in both directions. This dynamic was evident during the sell-off and in the subsequent rebound.

While volatility is likely to remain elevated, the medium-term fundamentals for silver remain broadly unchanged. Industrial demand linked to electrification, alongside structurally tight physical balances, continues to underpin the market. At the same time, silver's higher volatility means it is likely to remain more sensitive to shifts in sentiment and positioning than gold.

However, for silver to build a more durable recovery, ETF outflows will need to stabilise. Holdings have fallen for eight straight days, and ETF demand remains a crucial driver of prices.

Silver remains in deficit



Source: Silver Institute, ING Research

Fundamentals still strong

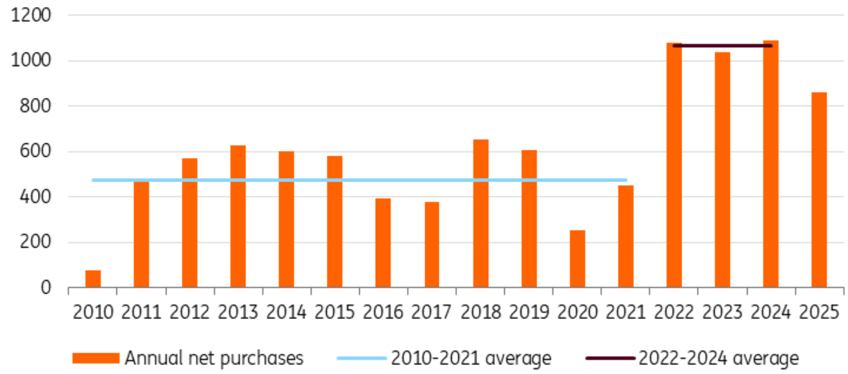
For gold, the recent correction does not appear to reflect a change in the underlying macro narrative. Safe-haven demand, ongoing central bank purchases, and the outlook for real rates remain supportive over the medium term.

While shorter term drivers triggered the latest rally, the foundation of gold's multiyear uptrend remains the steady accumulation by global central banks. This phase began in 2022 following Russia's invasion of Ukraine, which prompted a reassessment of reserve security and diversification strategies. Since then, that 'official sector' demand has been a consistent and stabilising force in the gold market.

Although central bank purchases moderated slightly last year, institutions remain significant net buyers. At current price levels, and following the recent correction, central banks are likely to become more active again. Their demand tends to be strategic, long-term and largely insensitive to short term price swings, reinforcing gold's structural support over the medium term.

That said, near-term price action is likely to remain driven by macro data, policy expectations and dollar movements, rather than a smooth continuation of the rally.

Central bank demand remains resilient despite record high gold prices



Source: World Gold Council, ING Research

What's next?

In the near term, volatility is likely to stay elevated as markets continue to adjust positioning following last week's moves. Without a material shift in macro fundamentals, we expect the recent sell-off to prove corrective rather than structural. However, the pace and sustainability of any further recovery will depend on developments in the US dollar, interest rate expectations, and broader risk sentiment. But, precious metals are more likely to climb at a steadier, less linear pace from here, rather than repeat the explosive rally seen over the past few months.

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