STUDY NOTES · BASIC CONCEPT

# Why do gold prices rise when interest rates are cut?

Indian Economy

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### Inverse Relationship Between the US Dollar and Gold Prices

- Gold is priced internationally in US dollars. When the dollar strengthens, gold becomes more expensive for buyers using other currencies.
- Higher cost reduces global demand for gold. Lower demand puts downward pressure on gold prices.
- The US dollar itself is considered a safe-haven asset. When investors prefer the dollar, demand for gold declines.
- A strong dollar reflects economic confidence, so investors prefer dollar assets (stocks, bonds) instead of gold.
- Gold provides no interest, so when US interest rates rise, investors shift from gold to yield-bearing dollar assets.
- During uncertainty or a weak dollar, investors buy gold as a safe-haven, pushing its price up.

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### Why Do Gold Prices Rise When Interest Rates Are Cut?

- Gold does not generate interest or regular income like other assets like Governmen bonds.
- High interest rates make bonds and fixed-income assets more attractive but Interest rate cuts reduce returns on interest-bearing assets. This lowers the opportunity cost of holding gold.
- Rate cuts often raise concerns about inflation and currency depreciation. Investors shift towards gold as a safe-haven and inflation hedge.
- Increased demand leads to a rise in gold prices.