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Gold Rebounds Under a Stronger Dollar

Why USD strength remains a headwind, but not a mechanical sell signal for gold

PREPARED BY	**Limitless PH Trading Intelligence**	COVERAGE	**Gold, USD, rates, energy, positioning**
RESEARCH STANCE	**Evidence-led, regime-aware**	VERSION	**Final 1.0**

CORE FINDING

The dollar is still strong overall. That matters for gold, but it does not settle the direction of gold on its own. The post-Fed rebound is a live example of a regime in which lower oil, easing longer-term yields, positioning and investment demand partly offset the currency headwind.

ABSTRACT

Gold sold off after the Federal Reserve raised the federal funds target range by 25 basis points on 16 September, then reversed sharply over the next two sessions. Spot gold moved from an intraday post-Fed reading of $4,240.10 to $4,390.11 by 18 September, a rebound of roughly 3.5%. The move occurred even as the US dollar remained broadly firm and, by 18 September, had returned to its highest level in more than seven weeks. [1, 4, 8]

The rebound does not imply that the historical inverse relationship between gold and the dollar has stopped working. It shows something more useful: the relationship is conditional. Gold trades inside a wider macro system that includes nominal and real yields, energy-driven inflation expectations, policy repricing, investment flows, positioning and geopolitical demand. In this episode, several of those inputs shifted in gold's favor after the hike even though the dollar itself did not enter a sustained weakening regime.

1. RESEARCH QUESTION

The immediate question is straightforward: how can gold recover after a genuinely hawkish Fed decision while the dollar remains strong? The answer is not that the dollar no longer matters. It is that dollar strength is one negative input among several, and its effect can be outweighed when the rest of the macro balance changes.

For practical market work, the more useful distinction is between a strong dollar by itself and a synchronized tightening configuration. Gold faces a materially harder environment when USD strength is accompanied by rising real yields, higher long-end Treasury yields, renewed energy inflation and increasingly aggressive Fed repricing. A firm dollar with easing long yields and cooling oil is a different regime.

2. THE FED DECISION WAS HAWKISH

On 16 September, the FOMC raised the federal funds target range by 25 basis points to 3.75% to 4.00%. The decision was unanimous, 12-0. The statement said inflation remained elevated and that the policy action was intended to support a timelier return to the 2% objective. [1]

The projections reinforced the message. The median end-2026 federal funds rate projection rose to 4.1%, compared with the new target-range midpoint of 3.875%. Reuters reported that 16 of 18 policymakers projected at least one additional increase before year-end. [2]

Markets initially treated the decision in the expected direction. The two-year Treasury yield rose to about 4.738%, the 10-year yield reached 5.00%, and the dollar index advanced 0.63% to 100.31. Gold fell sharply, with spot bullion quoted as low as $4,240.10 during the post-announcement selloff. [4, 5]

EXHIBIT 1. EVENT SEQUENCE AROUND THE FED DECISION

Date	Gold spot	Rates / USD	What changed	Interpretation
14 Sep	$4,312.59	10Y near 5%; hike odds ~93%	Oil and inflation data pushed tightening expectations higher.	Gold was already being repriced before the meeting.
16 Sep	$4,240.10 intraday low	2Y 4.738%; 10Y 5.00%; DXY 100.31	Fed hikes 25 bp, 12-0; signals more tightening.	Classic first-order bearish reaction.
17 Sep	$4,360.36	10Y 4.939%; USD eased from 7-week high	Oil falls; long yields retreat; gold rises 2.3%.	The transmission variables reversed even though the Fed remained hawkish.
18 Sep	$4,390.11	USD back at >7-week high	Gold adds another 1.2%; first weekly gain in four weeks.	Direct evidence that strong USD and rising gold can coexist temporarily.

3. THE DOLLAR MATTERS, BUT IT IS NOT A VETO

Gold is denominated in dollars, so a stronger dollar normally raises the local-currency cost of bullion for non-US buyers. A stronger dollar is also often associated with tighter US financial conditions and a higher relative return on dollar assets. Both channels are legitimate headwinds for gold.

The mistake is turning that tendency into a one-variable rule. On 18 September, Reuters reported that the dollar had climbed to its highest level in more than seven weeks while spot gold still rose 1.2% to $4,390.11. That is not a theoretical exception. It happened in the same session. [8]

> **Conceptual driver framework**
>
> **Gold return ~= USD effect + real-yield effect + energy / inflation effect + flows + positioning + risk demand**
>
> *This is a research framework, not an estimated regression.*

The important variable is the combined balance. If the dollar rises modestly while long yields fall, oil cools and investment demand stays firm, gold can still rise. Conversely, a weaker dollar does not guarantee higher gold if real yields are rising sharply or institutional flows are reversing.

4. WHAT CHANGED AFTER THE HIKE

The cleanest explanation for the rebound is found in the cross-asset transmission, not in a sudden change of Fed tone. The Fed remained hawkish. What changed was the market's pricing of some of the consequences.

First, oil eased. In the days before the meeting, higher crude prices had been feeding the inflation story and helping push Treasury yields and hike expectations higher. As supply fears moderated, oil fell to a one-week low. That removed some of the inflation pressure that had been weighing on gold. [3, 6]

Second, longer-term Treasury yields retreated. The benchmark 10-year yield fell to about 4.939% on 17 September after touching 5.00% around the Fed decision. That move reduced the immediate opportunity-cost pressure on non-yielding gold, even while short-term yields remained elevated. [5, 7]

Third, the market had already done substantial pre-positioning. Ahead of the decision, traders were assigning roughly a 93% probability to a 25 basis point hike. Gold had already fallen to a more than one-month low on 14

September. When an event is widely expected, the realized headline can still be hawkish without producing a fresh, one-directional move of the same size. [3]

Reuters also cited the unwinding of prior short positions as oil eased and the expected Fed hike passed. Short covering is therefore a plausible contributor to the speed of the rebound, but it should be treated as a positioning mechanism rather than the sole explanation. [8]

5. INVESTMENT DEMAND HAS NOT DISAPPEARED

The underlying flow picture remains important because it helps explain why gold can absorb macro headwinds without immediately breaking down. World Gold Council data show that global physically backed gold ETFs attracted $18 billion in August. Holdings increased by 121 tonnes to a record 4,189 tonnes, while assets under management reached about $615 billion. [9]

The broader August rally was also supported by futures and options activity. The World Gold Council described ETF flows, futures flows and options demand as major contributors to a 13% monthly gain in gold, the third-strongest monthly return in roughly a quarter century. [10]

CFTC data add a cleaner positioning measure than broad labels such as "smart money." As of 15 September, managed-money traders in COMEX gold futures held 142,394 long contracts and 9,278 short contracts, a net long position of 133,116 contracts. Managed-money longs represented 34.7% of open interest and shorts 2.3%. [11]

EXHIBIT 2. FLOW AND POSITIONING EVIDENCE

Measure	Latest verified observation	Why it matters
Gold ETF flows	+$18bn in August	Shows persistent investment allocation despite higher-rate risk.
ETF holdings	4,189 tonnes, record high	Provides a structural demand cushion, though flows can reverse.
Managed-money futures	142,394 long vs 9,278 short	Confirms a strong net-long speculative position going into the Fed meeting.
Gold market activity	Average daily volume +21% m/m in August	Higher participation increases the importance of positioning and flow-driven moves.

6. GEOPOLITICS WORKS THROUGH MORE THAN ONE CHANNEL

The Middle East backdrop remains relevant, but it is easy to oversimplify. Reuters reported on 17 September that China had privately urged Iran to help restrain Houthi activity after Saudi Arabia sought Beijing's assistance. The immediate market relevance was the potential reduction in risk to energy infrastructure and shipping routes, which helped soften the oil-risk premium. [12]

For gold, that can be supportive through an indirect channel: lower oil can reduce inflation pressure, which can ease the expected path of rates and long-term yields. At the same time, renewed attacks or broader escalation can support gold through direct safe-haven demand. These channels can pull in opposite directions. Reuters reported further Houthi attacks on Saudi targets on 19 September, so the geopolitical backdrop cannot yet be described as fully normalized. [13]

That is why a simple "geopolitical tension equals higher gold" rule is no more reliable than "strong dollar equals lower gold." The transmission path matters.

7. LIMITLESS PH REGIME READ

Our current read is that gold is showing resilience inside a still-restrictive macro environment. The Fed has tightened, short-term yields are high, the dollar is strong, and another rate increase remains possible. Those are real headwinds. They should not be edited out of the story.

At the same time, the post-Fed price action shows that the bearish transmission weakened once oil and longer-term yields retreated. The market also retains substantial ETF demand and a strongly net-long managed-money position. The result is a mixed regime rather than a simple one-way macro signal.

EXHIBIT 3. WHAT MATTERS FROM HERE

Regime	USD	Rates / oil	Gold implication
Constructive	Firm or mixed	Long yields ease; oil stabilizes or falls	Dollar headwind can be absorbed if flows and risk demand remain firm.
Balanced	Stronger	Rates broadly stable; oil contained	Gold may consolidate rather than mechanically fall.
Bearish	Stronger	Real yields rise; oil rises; hike odds rise	This synchronized tightening mix is the more serious downside configuration.
Flow reversal	Any	ETF outflows and futures liquidation	Positioning support turns into a source of downside acceleration.

8. PRICE REFERENCE AND DATA DISCIPLINE

Public spot-gold sources reviewed for this note show a post-Fed intraday reading of $4,240.10 on 16 September, followed by $4,360.36 on 17 September and $4,390.11 on 18 September. On that benchmark sequence, the rebound from the post-Fed low to the 18 September reading was about $150, or 3.5%. [4, 6, 8]

Limitless PH has separately identified an internal broker-feed low zone around $4,134 to $4,150. That level is not reproduced in the public spot sources used in this paper, so it is deliberately excluded from the return calculation above. It may reflect a different broker quote, symbol construction, spread treatment or session print. It should be used in the dashboard only after the relevant MT5 history is confirmed.

This distinction is important. The macro conclusion does not depend on which feed prints the lowest tick, but published return statistics should always use one consistent price source.

9. WHAT WOULD INVALIDATE THE REBOUND THESIS?

The current rebound is not evidence that tighter policy no longer matters. The strongest challenge would be a synchronized move in the variables that historically raise gold's opportunity cost: a stronger dollar, rising real yields, renewed increases in the long end of the Treasury curve, higher oil-driven inflation pressure and a fresh repricing toward more Fed hikes.

A reversal in ETF flows or a rapid liquidation of the large managed-money net-long position would add a second source of pressure. Positioning is supportive while capital is staying in the trade. It becomes a vulnerability when the same holders begin reducing exposure.

From the public spot sequence used here, the $4,240 area is the most immediate post-Fed downside reference. The $4,400 area is the nearest obvious psychological barrier after the rebound to $4,390. These are market reference points rather than standalone trade signals.

CONCLUSION

The September rebound is useful because it exposes the weakness of one-variable explanations. The Federal Reserve delivered a real tightening move. The dollar remained strong. Gold still recovered.

The correct takeaway is not that USD strength has stopped mattering. It is that USD strength is a headwind, not a veto. Gold responds to the combined state of the dollar, real and nominal yields, energy prices, policy expectations, flows, positioning and risk demand. When those forces diverge, the usual inverse relationship can weaken or temporarily break down.

For Limitless PH, the more defensible macro framework is therefore conditional: a strong dollar becomes materially more bearish for gold when it is reinforced by rising real yields, rising oil-driven inflation pressure and more aggressive Fed repricing. A strong dollar alongside easing long yields, cooling oil and persistent gold demand can produce a very different outcome.

LIMITLESS PH RESEARCH VIEW

USD strength should remain in the gold scorecard as a negative input, but it should not be treated as an automatic short-gold conclusion. The regime is determined by the balance of evidence across rates, energy, flows, positioning and risk.

METHODOLOGY AND SOURCE NOTES

This note uses publicly available primary and high-quality secondary sources published through 20 September 2026. Federal Reserve releases are used for policy decisions and projections. CFTC data are used for futures positioning. World Gold Council data are used for ETF flows and market activity. Reuters is used for contemporaneous spot-gold, foreign-exchange, Treasury-yield, oil and geopolitical market reporting.

Market prices quoted from Reuters are article-time observations rather than full-session OHLC data. They are used to reconstruct the event sequence, not to replace broker-grade historical data. Limitless PH internal MT5 data should remain the authority for any strategy test, signal validation or broker-specific chart annotation.

The driver equation in this paper is conceptual. It is not presented as an econometrically estimated model and should not be interpreted as a fitted forecasting equation.

REFERENCES

1. **Federal Reserve Board.** Federal Reserve issues FOMC statement. 16 Sep 2026. Source

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4. **Reuters.** Gold falls more than 1% after Fed hikes interest rates. 16 Sep 2026. Source

5. **Reuters.** Stocks fall as Fed delivers hawkish rate hike. 16 Sep 2026. Source

6. **Reuters.** Gold gains over 2% on weaker dollar, easing oil prices. 17 Sep 2026. Source

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8. **Reuters.** Gold rises to one-week high, heads for weekly gain on easing oil prices. 18 Sep 2026. Source

9. **World Gold Council.** Gold ETF Flows: August 2026 - Global demand drives record holdings. 9 Sep 2026. Source

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11. **U.S. Commodity Futures Trading Commission.** Disaggregated Commitments of Traders - Gold, futures only. 15 Sep 2026. Source

12. **Reuters.** China presses Iran to help rein in Houthis after Saudi appeal, sources say. 17 Sep 2026. Source

13. **Reuters.** Flames, smoke seen near Riyadh airport; Houthis claim attacks on Saudi capital. 19 Sep 2026. Source

LIMITLESS PH TRADING INTELLIGENCE

Macro first. Confirmation second. Risk management always.

Research principle: Evidence > computation > testing > model reasoning > intuition.