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THEMATIC INSIGHTS

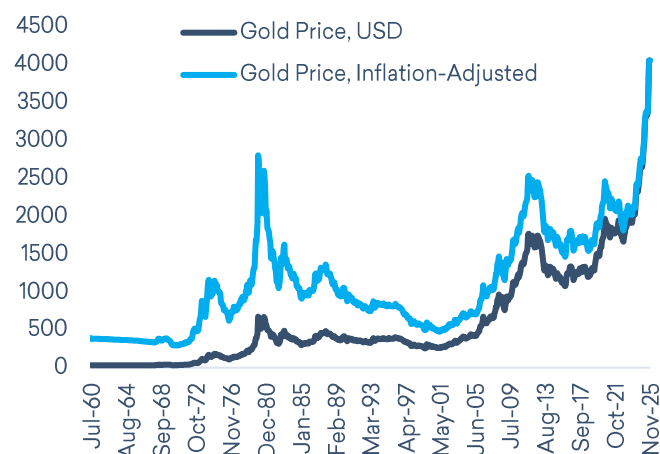
**Gold Rush: Implications for the
GEL/EUR/USD Strategy, and the UZS**

19 November 2025

TBC Group Chief Economist Office

Gold prices are up by more than 50% in USD terms so far in 2025, on track for the best year since all the way back in 1979, and highest ever when adjusted for inflation (Figure 1). Much has been said all around the world lately about the drivers and peculiarities behind what we can broadly define as the third major modern gold cycle following the 1970s and 2000s sustained surge in prices. In November last year, we explored [the implications of the US election outcome](#) on the [TBC Capital optimal funding currency structure](#), a framework designed for businesses, banks and financial

FIGURE 1: GOLD PRICES ON TRACK FOR BEST YEAR IN HALF A CENTURY, AND AT RECORD-HIGH LEVELS ADJUSTED FOR INFLATION



Source: Bloomberg, FRED

institutions to better manage risks and opportunities in multicurrency economies. In this spirit, what does the gold rush tell us about the EUR-USD outlooks, by extension what are the likely implications for the GEL/EUR/USD strategy, and, finally, what can we say on the UZS?

A gold rush is a discovery of gold that is accompanied by an influx of people hoping to make a fortune. While the discovery part is missing in 2025, the onrush is certainly in place – now easier than ever, thanks to the emergence of ETFs and trading applications. Speculative activity has certainly played a role, as volatility has spiked and trend shifts can easily be traced back to specific events. Furthermore, while gold has dominated headlines, money has poured in all precious metals, sending prices soaring. Does the surge actually make sense? Absolutely. Should prices be *this* high? Perhaps not at the moment, also attested by our in-house model, and we have seen somewhat correction over the past few weeks. That said, it is not only these – relatively short-term – drivers that have upended the markets. Rather, the gold rush reflects a range of structural factors, in particular: a) the so-called “debasement trade” on the back of fiscal concerns across the developed world; b) the break in the traditional inverse relationship between risk-free and risky assets; c) the erosion of the USD safe haven status; d) the structural de-dollarization of central bank reserve assets; e) growing demand from institutional investors – incidentally, the largest contributor to the current price jump. All of these represent medium-to-long run drivers. In other words, they are here to stay, and are distinctly USD-negative. Of course, neither the gold rush nor the challenge to the USD primacy is without precedent. The caveat is that *this time* it might actually be different.

For the GEL, the story, in our view, remains dominated by the domestic component, at least in the near term. [Though our stance is broadly neutral](#), continued undervaluation raises the probability of GEL appreciation. All in all, what does this mean for the optimal FX strategy? Well, our updated recommendation would accordingly be to a) borrow relatively more in the USD, even if to a lesser extent due to smaller EUR misalignment, and b) risk appetite permitting, consider increasing the FX share in borrowing.

Finally, regarding the UZS, while the surge in gold prices and the weak greenback have certainly contributed to strength, a range of structural drivers, chief among them inflation, have been just as – if not more – important, and a fall in gold prices would not necessarily imply UZS weakness. We continue to bet on at least lower UZS depreciation going forward.

EUR-USD: Signs of Structural Weakness in the Greenback

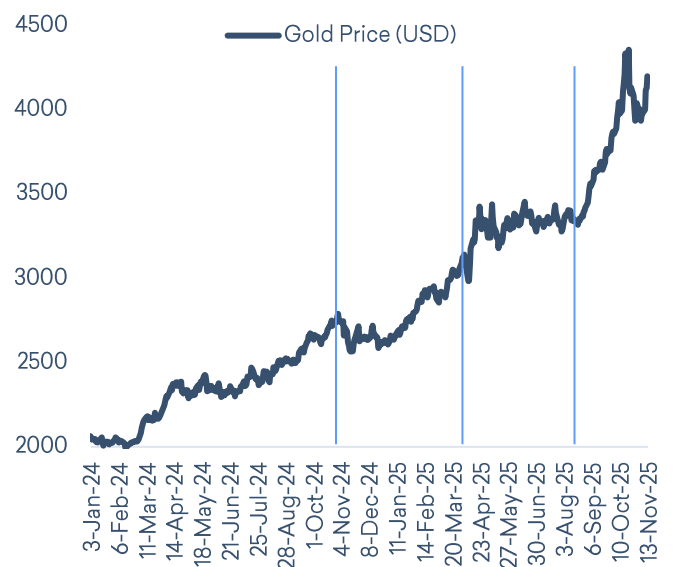
As is tradition, we split key factors to consider for the EUR-USD into two groups: **short-term** and **medium-to-long term**. Those familiar with our approach are aware that [it is the latter that is the main focus of the framework](#) and the [source of vast potential gains](#) if employed in the strategic decision-making process. A key point we have repeatedly highlighted is that, in the short run, markets are highly volatile and prone to wild swings in response to news. Therefore, it is of critical importance to assess whether the surge in gold prices is driven by short-term self-reinforcing behavior or whether it reflects more of a structural shift that also affects the EUR/USD – perhaps, more broadly, fiat currencies in general – and, subsequently, its outlook. As always, the answer is likely a little bit of both, though, in this instance, probably more so on the structural side.

Let's begin in chronological order:

- Gold prices initially fell in November 2024 following US elections, as [the USD strengthened and bond yields went up](#) (Figure 2).
- Ensuing recovery accelerated in April 2025, after the [so-called “liberation day” tariff rollout](#), with gold prices jumping, followed by largely flattening until August.
- The next catalyst turned out to be the 22 August speech by Fed chair Jerome Powell, interpreted as more dovish-than-expected by the markets, sending gold soaring and yields plunging. Since then, gold gained as much as 30% at the peak on 21 October 2025, after which it suffered the biggest one-day fall in over a decade, down by 5.7% within 24 hours.

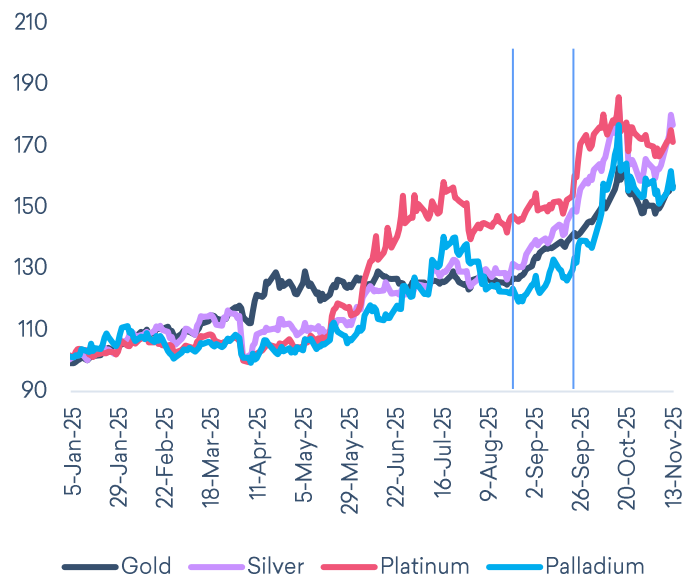
The decline didn't last long, however. Prices have started to rise again, now only 3.6% behind the peak as of November 13. Furthermore, the rally is not limited to gold prices only, but all major precious metals, particularly post-August, with price declines over the past week also mirroring each other (Figure 3).

FIGURE 2: GOLD PRICE SHIFTS APPEAR TO BE CLOSELY LINKED WITH US-SPECIFIC EVENTS



Source: Bloomberg

FIGURE 3: IT IS NOT JUST GOLD PRICES THAT HAVE SURGED IN 2025 (Index, 1-Jan-25 = 100)

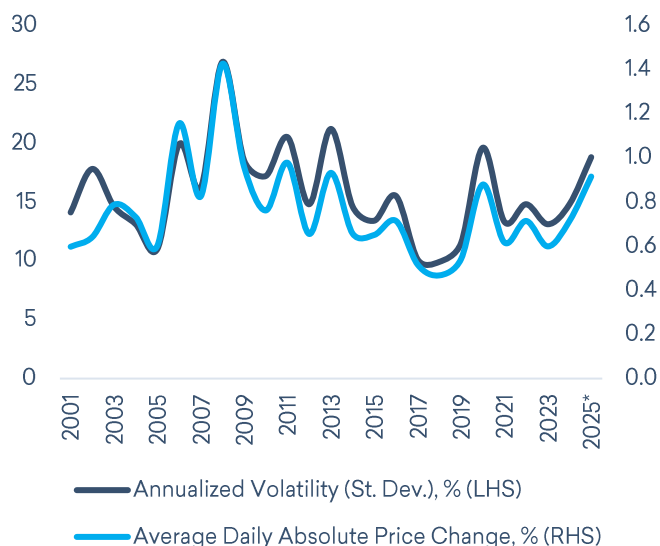


Source: Bloomberg

What conclusions can we draw from this?

- First, news – and accompanying sentiment changes – have most certainly had a major impact on recent gold price movements, with trend shifts readily traceable to major events. This includes latest dynamics which have been influenced by the reassessment of immediate US economic prospects in light of the US-China trade deal, end of the US government shutdown and the hawkish Fed stance following the end-October meeting, also reflected in the slight USD uptick over the past few days.
- Second, the simultaneous rise across all precious metals indicates that the market repricing prior assumptions at large – i.e. not necessarily idiosyncratic to gold – explains a sizeable chunk of the current trend.
- Third, it's not just that prices have surged, but so has volatility (Figure 4). This lends support to the argument that speculative activity has also grown in parallel with rising prices and, perhaps just as importantly, omnipresence of gold in financial as well as mainstream news.

FIGURE 4: NOT ONLY HAVE GOLD PRICES INCREASED, BUT SO HAS VOLATILITY



Source: Bloomberg, TBC Capital

These, in essence, are relatively short-term drivers. If the surge in gold prices can primarily be attributed to narrative shifts, e.g. a decline in US interest rate expectations, a surprise in the opposite direction could just as well send gold tumbling. Due to the transitory – and volatile – nature of such developments, they, by design, bear little relevance for the optimal currency framework, which attempts to filter out “noise” in order to focus on structural characteristics.

However, although narratives certainly do matter, and certainly do encourage animal spirits – nobody wants to miss out on potential gains when things look good, and nobody wants to be left behind in case of potential losses when things look bad – it appears that the gold rush reflects a range of underlying issues that are likely to persist in the medium-to-long term, weighing particularly on the USD outlook. At the same time, **narratives are not exclusive to volatile sentiments; instead, they might amplify structural features, serving as a kind of a trigger.** In other words, narratives need not create a new story, but could reinforce an existing one. The EUR appreciation in 2025 is a good example of this, as fiscal measures, and [economic policy at large](#), adopted by the current US government, brought [well-known fiscal woes](#) into public prominence, triggering a partial correction in [the sustained EUR undervaluation](#). This happened even though, ostensibly, there was no major shift of fiscal policy from a long-run perspective, despite the adoption of the so-called “Big Beautiful Bill”, since the unsustainable path of federal debt and expanding twin deficits has long been a material disadvantage for the greenback, as we, among many others, had [repeatedly highlighted previously](#).

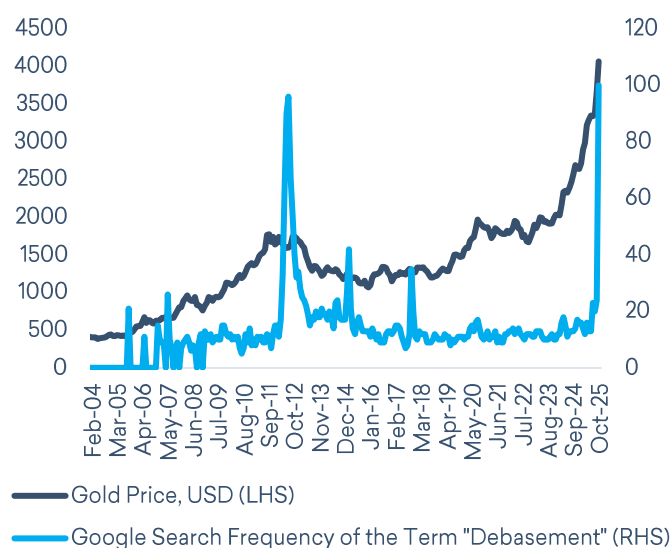
Something similar has been happening in case of gold as well – rapid loss of confidence in the USD that has seen [the greenback start behaving akin to an emerging market currency](#) has seen “**currency debasement**” become perhaps one of the hottest topics lately. Originally, debasement meant lowering the intrinsic value of coins, famously enacted throughout Roman history. As opposed to Romans, of course, today’s fiat currencies are no longer minted in precious metals; rather, debasement refers to loss of value in the figurative sense.

Essentially, the narrative goes that, with memories of rampant inflation still fresh, markets have been scared by the prospect of exacerbating fiscal concerns translating into entrenched inflation as a result of governments across the world turning to monetizing debt due to their inability – or reluctance – to restrain borrowing, as well as concerns about central bank independence. Because of this, gold has appreciated against fiat currencies, including the CHF or the EUR which, by themselves, have gained ground against the USD. Google trends indicate a sudden surge in the search term “debasement” worldwide in October 2025, even though gold had already been well up before that (Figure 5). This does not mean that the debasement trade had not been happening before. Rather, it’s a clear example of narratives forming into shape and amplifying pre-existing trends in real time. At the same time, Figure 5 shows that mistrust in fiat currencies and fears of runaway inflation is not entirely novel – there was another instance of the search term “debasement” spiking in 2011-2012.

Examining what happened back then, the Fed had just launched open-end quantitative easing, and the ECB had introduced its own liquidity injection measures on the height of the Eurozone debt crisis. At the time, gold prices reached a then record-high in USD terms, coming very close to an all-time high when adjusted for inflation as well (Figure 1). Those fears did not materialize, as gold retreated and the USD bounced back. Now, the debasement narrative is back and is underpinned by ballooning global debt as well as the emergence of alternative currencies such as Bitcoin, indicating that it’s more likely here to stay for the medium term, an important downside for the USD outlook.

That said, we’d like to note that gold, despite its reputation, is hardly a reliable inflation hedge even over relatively longer periods such as 10 or 20 years, as evidenced from real gold price dynamics (Figure 1). In fact, gold is a highly volatile asset, significantly more so than inflation, and, while its unique position as a store of value certainly holds true, this concerns significantly longer time horizons.

FIGURE 5: THE DEBASEMENT NARRATIVE HAS GAINED A LOT OF PROMINENCE LATELY



Source: Bloomberg

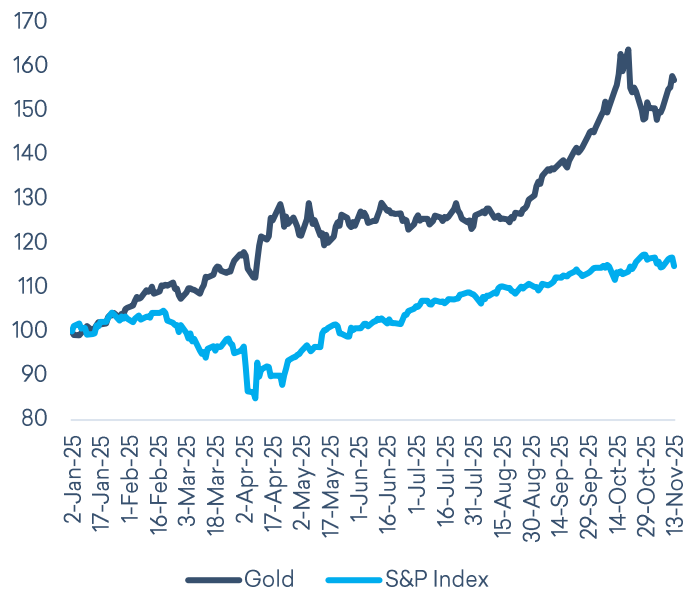
That fiscal worries, which are a medium-to-long term driver, have been playing a major role in the rise of gold and the USD weakness can be attested by the fact that **the stock market has been growing just as strongly as gold**, a highly unusual combination from a historical perspective.

When gold reached its previous high in September 2012, it was up by 145% compared to September 2007, when the stock market began to contract, whereas the S&P index was down by 3.6% in the same period. When gold reached its subsequent high in August 2020, it was up by 23.4% compared to February 2020, when the COVID pandemic set in. In the same span of time, the S&P index was up by a mere 3.5%. The historical pattern has always been clear: gold is the ultimate safe haven asset, but yields no return – thus, in good times, the stock market outperforms gold and, in bad times, the opposite happens.

What about now? As of November 13, compared to the April average, when gold prices began to surge, gold has risen by 29.5%, while the S&P has grown by 25.5%. Compared to the beginning of the year, the stock market gains are more modest due to the post-“Liberation Day” fall, with gold up by 57%, but the S&P still up by a respectable 15% (Figure 6). Therefore, the market appears to have no qualms about the US private sector; on the contrary, both gold and equities have kept rallying, as opposed to the USD, which is certainly not having a great time. The concurrent rise in risky and risk-averse assets implies that past episodes of rising gold prices hold little relevance for today, as the drivers are rather different.

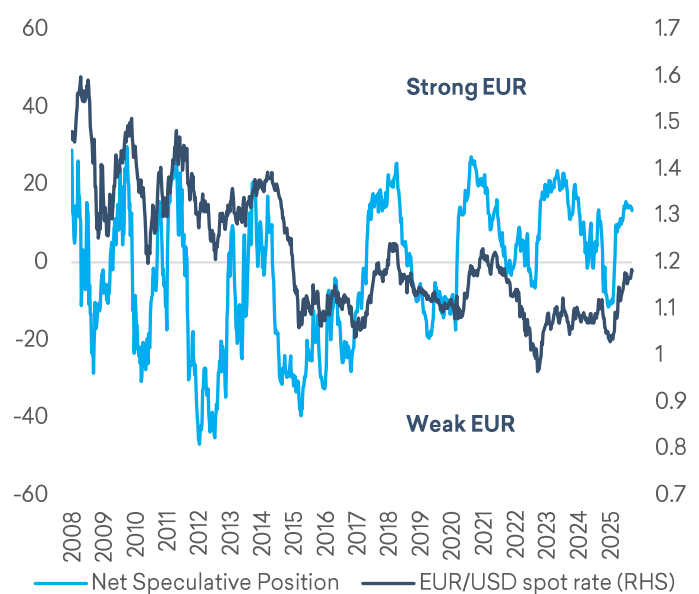
It follows that it is the public sector, specifically the grim fiscal outlook, where the reason for the short USD lies, with the market turning distinctly bearish on the greenback, as evidenced by net speculative positions (Figure 7).

FIGURE 6: UNUSUALLY, ASSET PRICES HAVE BEEN RISING IN PARALLEL WITH GOLD



Source: Bloomberg

FIGURE 7: THE MARKET HAS TURNED DISTINCTLY BEARISH ON THE USD

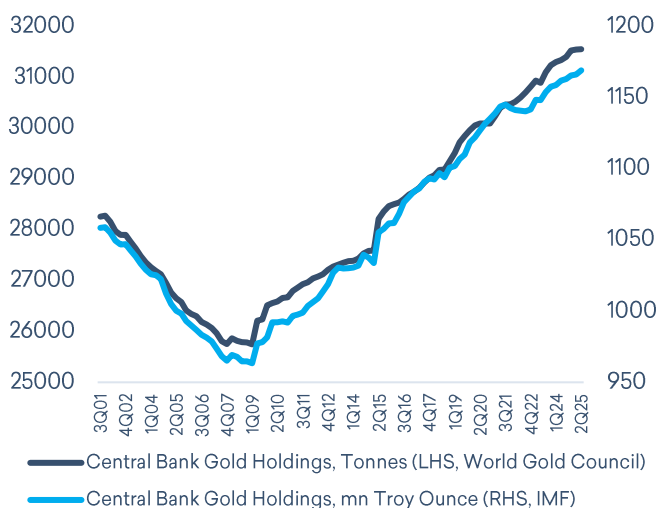


Source: CFTC

Building on the safe haven topic, it is not just inflation risks that the market has been hedging by rushing into gold assets. **Geopolitical uncertainty and the structural de-dollarization of central bank reserve assets in the wake of growing polarization and the emergence of economic sanctions** have also been boosting demand on gold.

On the one hand, central banks have slowly been purchasing gold as a means to diversify USD-dominated gross reserve assets. There are several reasons for this: diversification, rising importance of new economic powers, weakening of US exceptionalism, as well as, more recently, vulnerability towards US sanctions. However, while certainly playing a relatively minor role, central banks have not been behind the jump in gold prices, despite remaining a key structural component of rising demand. Examining central bank gold holdings in volumes – rather than oft-cited prices – reveals that purchases are firmly in line with the historical trend (Figure 8).

FIGURE 8: CENTRAL BANK GOLD PURCHASES ARE IN LINE WITH THE HISTORICAL TREND



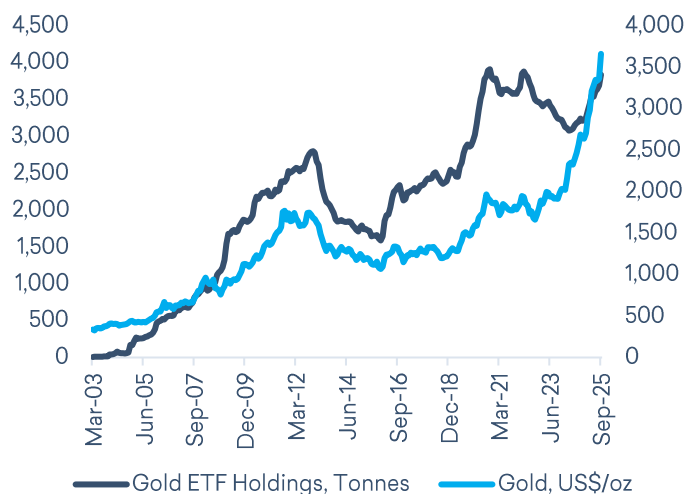
Source: IMF, World Gold Council

On the other hand, **institutional demand** has indeed grown significantly, as ETF holdings have been on the rise since the beginning of 2025 (Figure 9).

Furthermore, flows into gold ETFs have grown to record-high levels since the second half of 2025, receiving the largest weekly inflow on record through the week ending on October 22 (Figure 10).

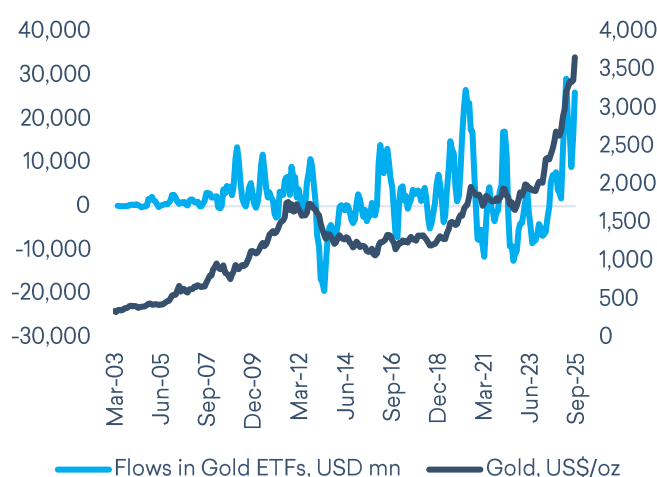
Naturally, an element of speculative activity is most certainly present within this rising demand. It is also logical to assume that this speculative activity is quite sizeable, as, like argued above, no one wants to miss out on easy gains – and the narrative behind the gold rush has been very strong. However, as central banks gradually continue to rack up gold holdings and gold ETFs begin to offer easy access to the bullion, the institutional demand reflects a longer-term shift in demand, even if a bit too high at the moment.

FIGURE 9: GOLD ETF HOLDINGS HAVE BEEN ON THE RISE, DRIVING MUCH OF HIGHER DEMAND



Source: WorldGold Council

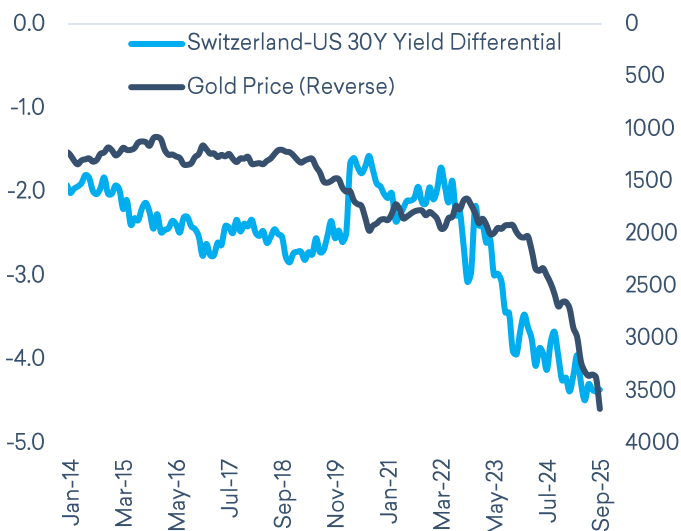
FIGURE 10: FLOWS INTO GOLD ETFs HAVE REACHED RECORD HIGHS LATELY



Source: WorldGold Council

As the [USD safe haven status has come under challenge](#) due to both short-term negative narratives and longer-term structural issues, alternatives for safe haven flows into gold have turned out to be particularly scarce. The JPY, another currency traditionally deemed safe, has been suffering under its own issues. The EUR, despite progress, is yet to attain a similar status. This leaves over the CHF as virtually the only other traditional safe haven currency that has held its ground. Yields on Swiss bonds have been falling significantly, reflecting rising demand (Figure 11), with short-term yields even turning negative.

FIGURE 11: THE USD APPEARS TO BE FALLING BEHIND TRADITIONAL SAFE HAVEN ASSETS

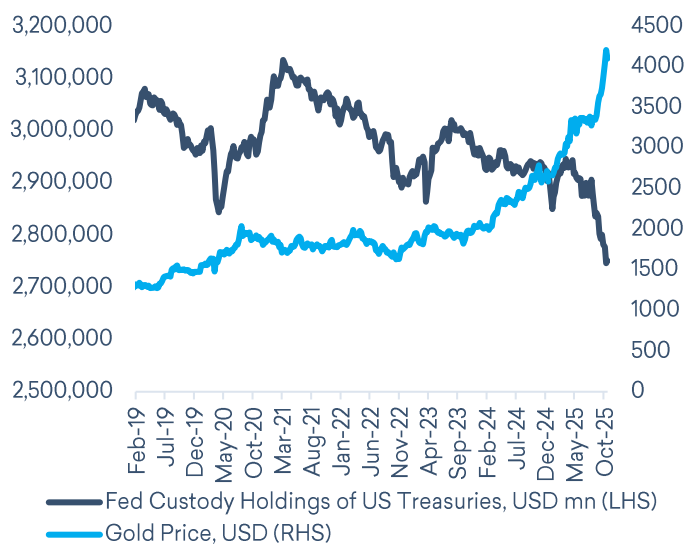


Source: Bloomberg, FRED, SNB

In this sense, **the lack of alternatives has been another factor fueling the rise in gold prices.** That gold has benefitted at the expense of the USD can also be seen through Fed custody holdings of US treasuries on behalf of foreign governments, which indicate a plunge since April 2025 in parallel with the surge in gold prices (Figure 12). Though, in theory, not a complete measure – governments don't exclusively hold US treasuries at the Fed – it serves as a reliable high frequency indicator for gauging foreign government/central bank demand on treasuries.

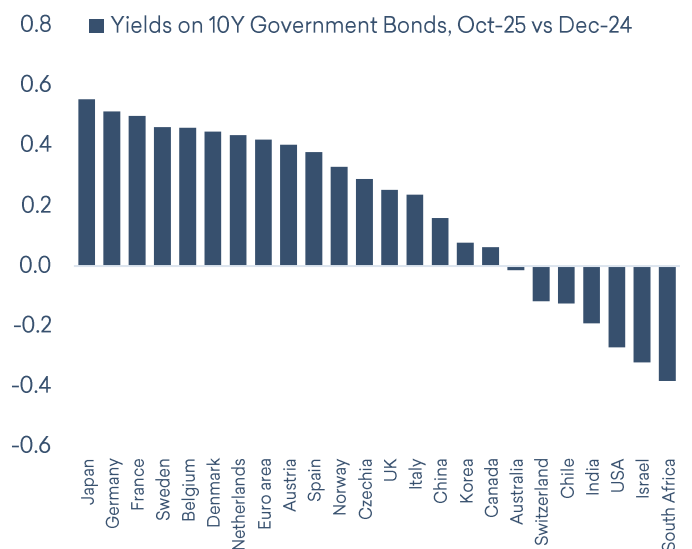
That said, while this may be more of a structural driver, it is important not to get ahead of ourselves. The debasement narrative also implies rising yields on longer-term bonds to compensate for risk, particularly in light of fiscal woes. This has indeed been the case for a wide range of major economies, though not for the USA, where yields have even fallen somewhat (Figure 13). The imminent downfall of the USD, therefore, is certainly not the baseline scenario; rather, what appears to be ongoing is a gradual weakening of its hegemony.

FIGURE 12: OUTFLOWS FROM US TREASURIES HAVE COINCIDED WITH SURGING GOLD PRICES



Source: Bloomberg, FRED, SNB

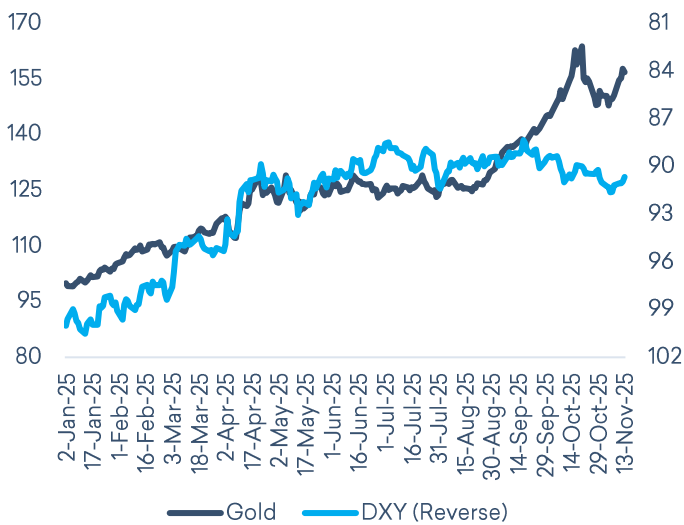
FIGURE 13: US YIELDS HAVE NOT RISEN LIKE IN THE MAJORITY OF DEVELOPED ECONOMIES



Source: Bloomberg, FRED

At the same time, the trade-off between gold and the USD is not uniform – whereas the initial surge in gold prices coincided with the fall in the USD, the subsequent rise has seen the USD remain flat, particularly since mid-September (Figure 14). This, perhaps, points to the growing contribution of speculative demand, which usually becomes evident in second-round effects.

FIGURE 14: THE USD HAS REMAINED LARGELY FLAT SINCE APRIL, WHILE GOLD PRICES HAVE CONTINUED TO RISE (Index, 1-Jan-25 = 100)



Source: Bloomberg

This conclusion is also supported by **our in-house model** which fits gold prices as a function of stock prices, the USD, commodity prices, US government yields, and the US recession probability. To avoid overfitting, we proxy e.g. trade policy uncertainty or market volatility through the stock market and yield movements, which usually reflect the former together with their own idiosyncratic drivers. Our central hypothesis is that gold behaves differently – and, by extension, the impact of these predictors on gold prices vary – depending on market conditions: whether there is general pessimism or optimism prevailing.

To this end, we construct a switching model, which does indeed identify two regimes – for simplicity, let’s call them bullish and bearish periods – during which the relationship between the predictors and gold prices is different, based on historical performance.

The advantage of this approach is clear when generating in-sample forecasts, as the switching model significantly outperforms a standard linear regression model with the same predictors (Figure 15). Based on our estimates, the post-April surge in gold prices was largely in line with its “fundamental drivers”, as the model-predicted prices also kept rising. However, the gap between projected and actual gold prices widened significantly in October. This could point to two factors: one, the emergence of a new “non-traditional” driver, with structural shifts in market perceptions a possible candidate, and two, a larger contribution of speculative activity than was the case historically. Indeed, we have seen gold prices retreat from mid-October highs, lending support to the conclusion that gold prices at the moment might be somewhat too high.

FIGURE 15: THE MODEL-PREDICTED VALUES HAVE BEEN CLOSELY ALIGNED WITH ACTUAL DYNAMICS, ALBEIT THE WIDENING GAP IN OCT-25 INDICATES POTENTIAL OVERVALUATION



Source: TBC Capital

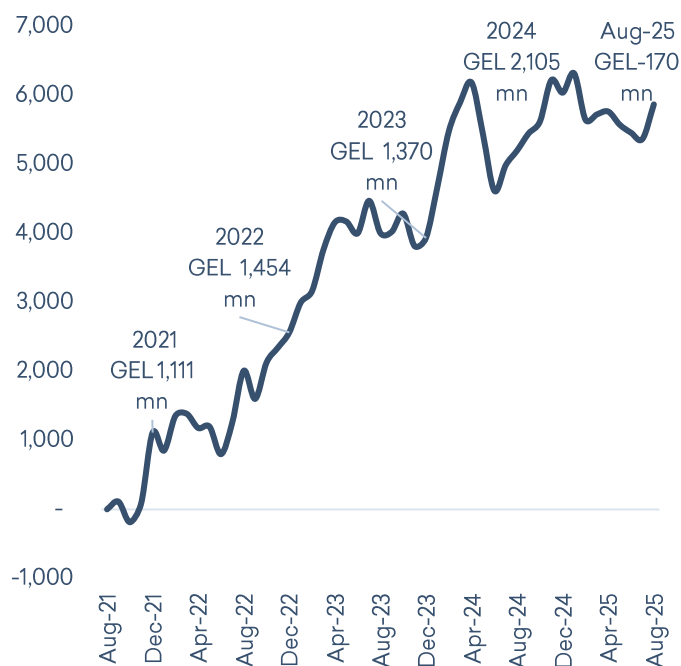
All in all, what does this mean for the GEL/EUR/USD strategy?

- On the one hand, the recent EUR appreciation is an argument for borrowing more in the EUR, as the degree of misalignment has narrowed. However, further EUR strengthening remains our baseline scenario, since the EUR is still undervalued [based on long-term measures](#).
- On the other hand, US exceptionalism and, by extension, the USD, continues to slowly but surely weaken. As we have demonstrated, the surge in gold prices – while certainly incorporating short-term speculative elements – reflects underlying shifts within the USD status as a global hegemon and a safe haven asset. These shifts are driven by long-run fundamentals, rather than simply worsening sentiments. Therefore, we do not bet on the USD regaining meaningful ground over the medium-to-long term, which now is an argument for borrowing more in the USD.

Of course, at the end of the day, the EUR-USD outlook is heavily influenced by the USD story. The appreciation of the EUR and the surge in gold prices have both largely reflected USD-specific developments, rather than idiosyncratic drivers such as e.g. changes in the French or German fiscal stances, or supply-side factors in case of gold. As we assess that these developments are likely structural, our updated recommendation would accordingly be to borrow relatively more in the USD, even if to a lesser extent due to EUR strengthening. At the same time, when taking up FX risk, the USD share should remain higher than that of the EUR. Complicated? Sure, but following this strategy [yields enormous benefits](#).

In particular, had the Georgian corporate sector followed the optimal FX strategy, the cumulative gain over the past five years would have been as high as GEL 6 billion (Figure 16). For comparison, the corporate loan stock in Georgia is c. 24 billion GEL-equivalent as of today.

FIGURE 16: CUMULATIVE POTENTIAL GAIN IN THE GEORGIAN CORPORATE SECTOR, RECOMMENDED VS ACTUAL PORTFOLIO



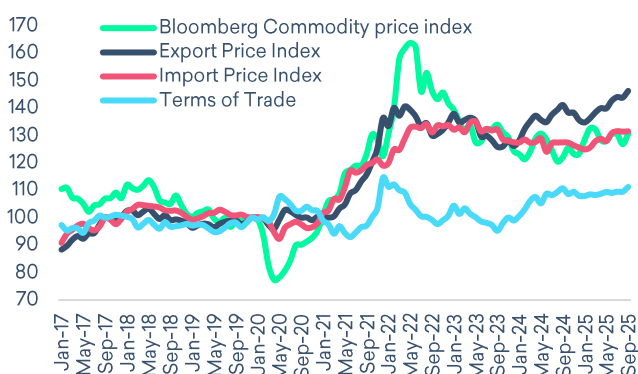
Source: TBC Capital

The GEL: Still Undervalued as Domestic Component Key

What about the GEL? Our readers are aware that we have long been highlighting [three primary GEL-supportive drivers](#) that have emerged in 2025:

- Let's start with the most relevant one for the purposes of this note – **global USD weakness**. We have covered this topic extensively above and elsewhere. What has changed? Not much in the near term, which, in our view, is dominated by the other two drivers, particularly the domestic component. For the medium-term, due to reasons outlined above, we don't expect material strengthening in the greenback, which is a GEL-supportive argument. As for the **direct impact of higher gold prices**, we'd like to highlight the emergence of gold ore exports as one of the primary drivers of Georgia's export growth in 2025, boosting the terms of trade (ToT) – the ratio of export prices over import prices – in the process (Figure 17). ToT in Georgia have [historically been broadly stable](#), an important source of resilience from a macro perspective. In this context, we once again note that, while not arguing that the economy is [delta neutral](#), Georgia's [exposure to commodity prices is broadly neutral](#).

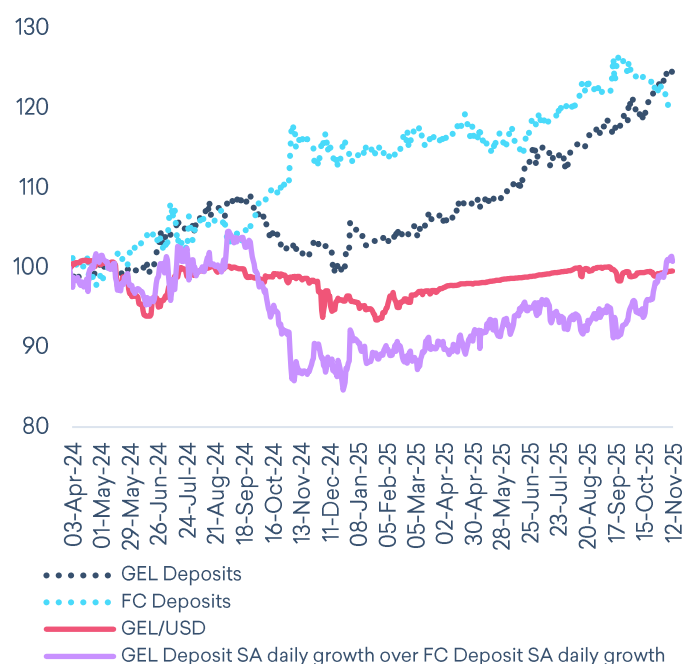
FIGURE 17: TERMS OF TRADE HAVE REMAINED BROADLY STABLE, THOUGH PICKED UP IN SEPTEMBER (Index in USD, Dec-19 = 100)



Source: Geostat, Bloomberg, TBC Capital

- The other major driver – perhaps, the most important one this year – is **deposit larization**, i.e. the so-called “[good time buffer](#)”. Following last year's [flight to FX assets](#), deposits began to be converted back into the GEL from the beginning of 2025. Larization [lost momentum](#) since around mid-July and remained broadly flat until mid-October. Since then, over the past month, conversions have accelerated significantly (Figure 18). The ratio between GEL and FX deposits overtook 2024 pre-election levels for the first time at the end of Oct-25. That deposit larization is one of the principal GEL drivers is evident from the NBG interventions, which is [closely aligned with larization dynamics](#). The good time buffer has not been fully utilized yet, though a significant part of reversal in deposit conversions has now already materialized.

FIGURE 18: DEPOSIT CONVERSION ESTIMATES INDICATE A PICKUP IN LARIZATION SINCE THE SECOND HALF OF OCTOBER (Index, 31-Mar-24 = 100, as of 12-Nov-2025)

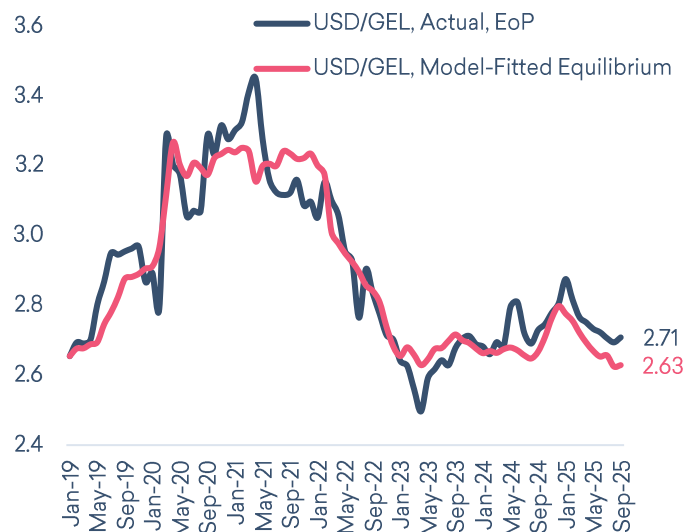


Source: NBG, TBC Capital

- The third one is **net foreign currency inflows**. Our composite measure of net inflows – combining merchandise trade, tourism revenues and money transfers – has been steadily rising in 2025, particularly high [in the last two months](#). On the inflow side, exports and remittances have grown robustly, while tourism revenues have increased relatively modestly. On the outflow side, the growth rate of imports has decelerated markedly. Due to the improvement in the trade balance (including services), [the underlying current account was in surplus in the second quarter](#). Based on our high-frequency estimates, the surplus is expected to remain in the third quarter.

Against this backdrop, we estimate that the GEL currently remains undervalued. Our short-run equilibrium USD/GEL estimate was equal to 2.63 as of September, as opposed to the spot rate of 2.71 (Figure 19). At the same time, the real effective exchange rate (REER) has been below its estimated long-run trend throughout 2025 (Figure 20). Furthermore, in light of this sustained undervaluation, should imported inflation increase – not our baseline at the moment – [the case for GEL appreciation will get even stronger going forward](#). Overall, we [maintain a broadly neutral stance on the GEL](#), reflecting the macro environment and the NBG likely moving to smooth volatility in both directions. Nevertheless, the higher likelihood of GEL appreciation needs to be considered within the GEL-EUR-USD strategy. **What does this mean in practical terms?** Well, a) [determine the optimal liability composition so as to be hedged](#); b) risk appetite permitting, perhaps borrow slightly less in the GEL as compared to the determined optimal share, in light of the higher probability of GEL strengthening over the medium term.

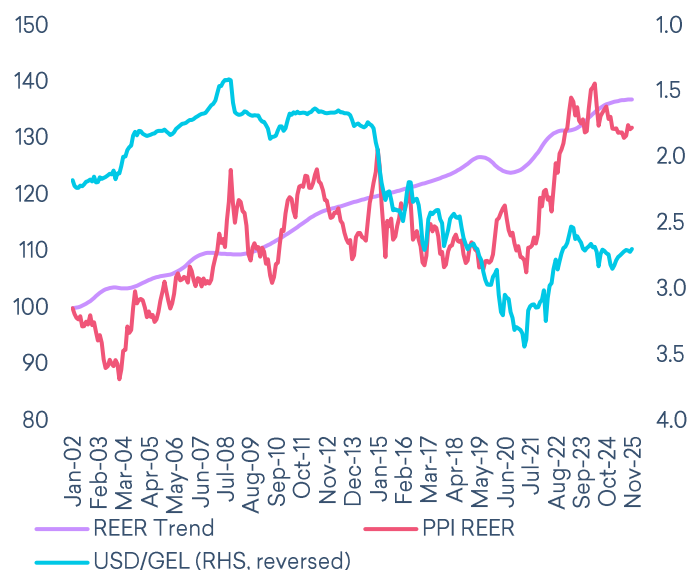
FIGURE 19: THE GEL EQUILIBRIUM ESTIMATE* HAS STRENGTHENED IN AUGUST AND SEPTEMBER



***Note:** We estimate the USD/GEL exchange rate as a function of GEL and FX deposits and loans, foreign currency inflows (sum of merchandise exports, tourism revenues and remittances) and global USD dynamics (proxied by the DXY index, measuring the value of USD against a basket of global currencies). The model is estimated in log form by the seemingly unrelated regression (SUR) method, allowing error terms to be correlated across the equations.

Source: TBC Capital

FIGURE 20: THE GEL REER REMAINS BELOW ITS LONG-RUN TREND (as of 17-Nov-25, increase means GEL appreciation)



Note: The REER Trend is estimated based on GDP per capita growth differential between Georgia and its main trading partners using relative trade weights and adjusted for the share of non-tradable sector

Source: NBG, TBC Capital

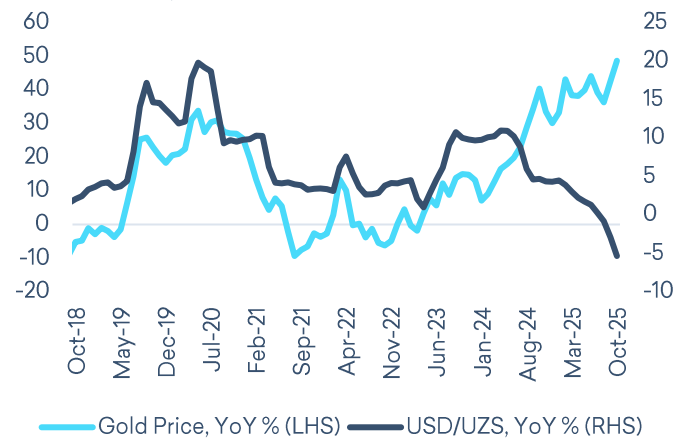
The UZS: Strength Reflects More Than Gold and the USD

We first argued publicly for “at least lower depreciation” of the UZS [in October 2024](#), drawing on our assessment of the macro environment and the subsequent outlook. Fast forward a year and the UZS has appreciated by c. 6% as of 14 November compared to the date of the publication. We look back to assess how last year’s projections have held up in our [follow-up note in June](#). Essentially, the UZS strength has been supported by both short-term and longer-term drivers, from the domestic as well as the external sides.

Like with the GEL, let’s begin with gold and USD-adjacent factors. As a significant gold exporter, the surge in prices has most certainly had a sizeable positive impact on Uzbekistan’s external balance sheet and, by extension, the UZS:

- The current account deficit has narrowed and reserve drawdown has been halted, albeit both of these developments were already evident throughout 2024.
- [At the same time](#), **non-gold exports** have expanded rapidly in parallel with that of gold, and **gross reserve assets, adjusted for gold prices**, have been broadly flat or even slightly growing in 2024-2025.
- The co-movement between USD/UZS and gold prices, [which we had identified](#) as evidence of a third, exogenous driver pushing both gold and the USD/UZS upwards (i.e. UZS depreciation), has continued to weaken since 2H23 (Figure 21). The co-movement, while easing recently, is important to keep in mind, as, **should gold prices fall from current levels, this would not necessarily imply UZS weakness, just as higher gold prices did not imply UZS strength before.**

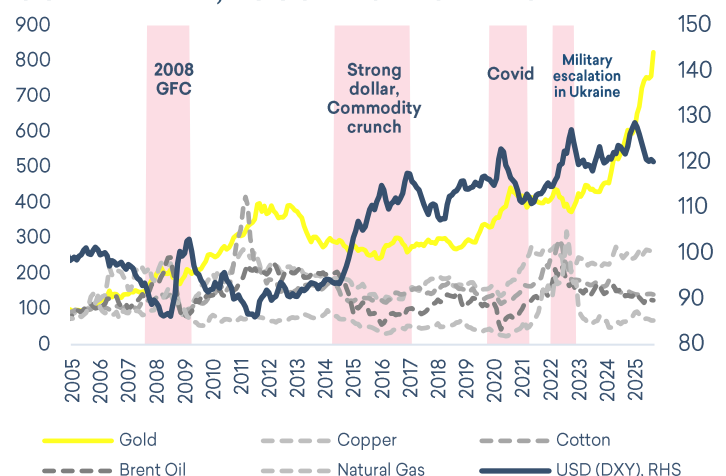
FIGURE 21: CO-MOVEMENT – TILL RECENTLY – BETWEEN USD/UZS AND GOLD PRICES POINTS TO A THIRD, EXOGENOUS DRIVER



Source: CBU, TBC Capital

Rising gold prices, of course, have also aided the ToT of Uzbekistan, which is characterized by rare external resilience. [Comparing ToT dynamics to other countries](#), Uzbekistan appears to reap the benefits – naturally, to a smaller extent – of higher ToT together with oil exporters during boom years, and, at the same time, doesn’t suffer from similar crashes when things turn sour. The reason for this is that **Uzbekistan is an exporter of commodities the prices of which are not correlated with each other** – namely, gold on the one hand and pro-cyclical commodities on the other, [an important feature of strength](#) (Figure 22).

FIGURE 22: PRICES OF PRO-CYCLICAL COMMODITIES AND GOLD ARE INVERSELY CORRELATED, BOOSTING RESILIENCE

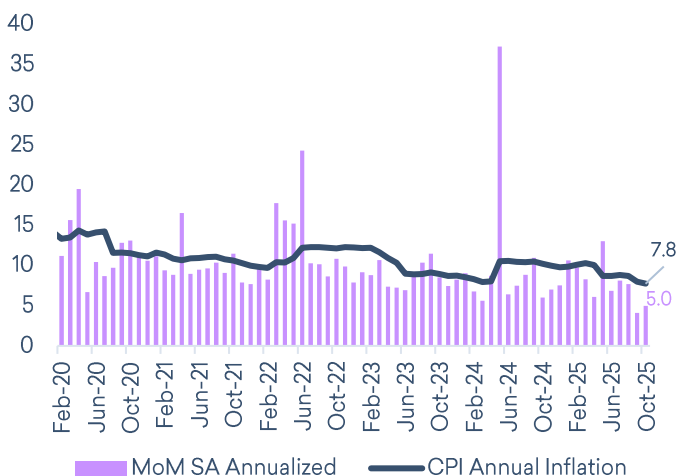


Source: CBU, TBC Capital

But it is not only gold prices or USD weakness that have been behind UZS strength. A more important one – we’d argue, perhaps, the most important one – is **inflation**. [We demonstrated](#) that, historically, UZS depreciation had been feeding into high inflation through imported prices and, simultaneously, high inflation had been necessitating UZS depreciation to offset the impact of the overly appreciated real exchange rate. Therefore, the central point we have kept highlighting is that the **inflation objective is invariably tied with exchange rate stability**: converging and maintaining inflation at 5% is highly unlikely – if not improbable – should the UZS keep depreciating like before, and maintaining the UZS stable is likewise improbable if inflation remains double-digit.

With this sort of introduction, what has inflation been up to lately? Annual inflation decelerated to 7.8% in October, lowest since the 2017 devaluation, and 6.5% excluding the one-off utility price shift, per our estimates. What’s even more important is that, **on a seasonally adjusted annualized monthly basis, inflation has already converged to the target**, reaching 4.1% in September and 5% in October (Figure 23).

FIGURE 23: ANNUALIZED MONTHLY INFLATION INDICATES CONVERGENCE TO THE TARGET OVER THE PAST TWO MONTHS

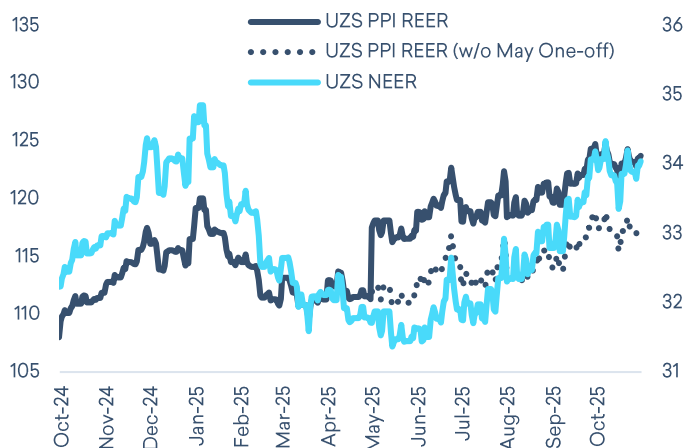


Source: CBU, TBCCapital

Disinflation has been aided by UZS strength through two channels: one, directly, from the imported price passthrough and, second, indirectly, as a result of [declining depreciation – and, by extension, inflation – expectations](#). Conversely, as the pressure from inflation has eased, our daily estimates of the real effective exchange rate (REER) indicate that, despite the UZS nominal appreciation, there has been no outsized impact on the REER that [could be considered a source of imbalance](#) by the CBU (Figure 24). In fact, excluding the May jump in PPI due to the utility price one-off, the REER remains below early 2025 levels, when [depreciation of partner currencies had pushed it upwards](#). As inflation continues to moderate, which remains our baseline scenario as well as that of [e.g. the IMF](#), a **stable – or even stronger – UZS would not result in an overvalued REER**, an important distinction from the past to consider.

Apart from significant progress in disinflation and non-gold improvement in the external balance sheet, the UZS strength has also been aided [by other longer-term structural developments](#), such as **credit normalization and the growing contribution of FDI and portfolio investments**. Against this backdrop, we continue to bet on lower UZS rates and at least lower depreciation of the UZS going forward.

FIGURE 24: THE UZS REER HAS STRENGTHENED BUT NOT AT OVERLY HIGH LEVELS



Source: Statistics Offices, TBCCapital

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