



# MACRO UPDATE – GEORGIA

Gold, the USD and Implications for Optimal  
FX Borrowing

2 April 2026

# KEY TAKEAWAYS

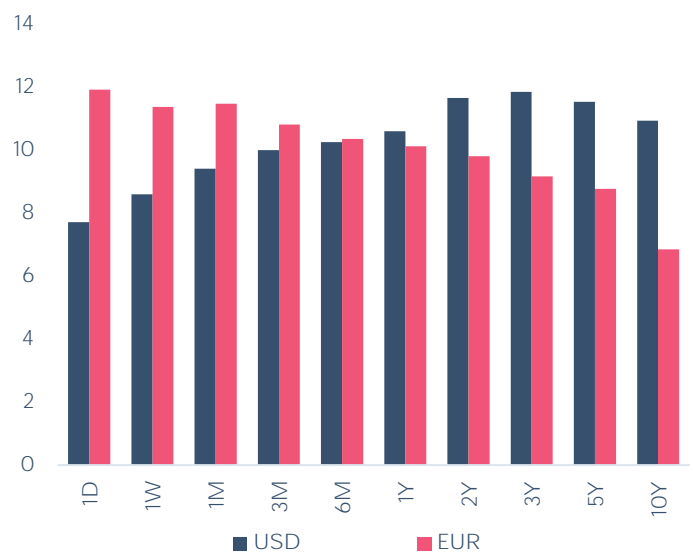
- That the GEL is more stable against the EUR than against the USD over longer time horizons forms one of the backbones of the TBC Capital optimal FX strategy;
- One of the reasons for this, besides inflows and commodity cycles, has historically been the USD safe haven status, with the greenback strengthening in times of stress, though we have highlighted the recent gradual erosion of USD dominance in this regard;
- Does the recent USD appreciation since the Middle East escalation warrant a change in our stance? We say no and **here's** why;
- Drawing on gold price dynamics, just as we did last November, we argue that safe haven flows have relatively taken a back seat, with clear parallels to 2022;
- De-escalation news have repeatedly triggered an immediate drop in oil prices, volatility, yields and the USD, while equities and gold have rallied, a telltale sign of inflation fears overriding the safe haven story;
- As we judge that the USD rally does not reflect a change in medium-to-long term drivers, we maintain that it is optimal to borrow relatively more in the USD, even if to a lesser extent due to smaller EUR misalignment, albeit with a cautious tilt for shorter-term exposures;
- Just how much should one borrow exactly? There is no alternative for tailored assessments, though an indicative guide can be found in last **week's** one-pager;
- Last but not least, since we speak of gold, also to note that recent developments are another indication that, in the first place, [the UZS is about inflation targeting rather than gold as such](#) – updated analysis to be followed up.

It is often tempting to default to comparison against the USD when assessing any particular currency. This phenomenon – formally called the dominant currency paradigm – is certainly true for the GEL, as we have often found across many discussions. After all, the local market sets the exchange rate against the USD only, with the rest based on global rates. This tends to relegate other currencies and overstate the role of the USD. It is therefore often met with surprise and a bit of initial skepticism when we argue that the GEL is, in fact, much more stable against the EUR than against the USD. This is not a theoretical proposition but an easily verifiable empirical fact – while the GEL is less volatile against the USD in the very short term, the opposite is true for time horizons of a year and longer (Figure 1). [This pattern holds for the wider region as well.](#)

There are several reasons for this:

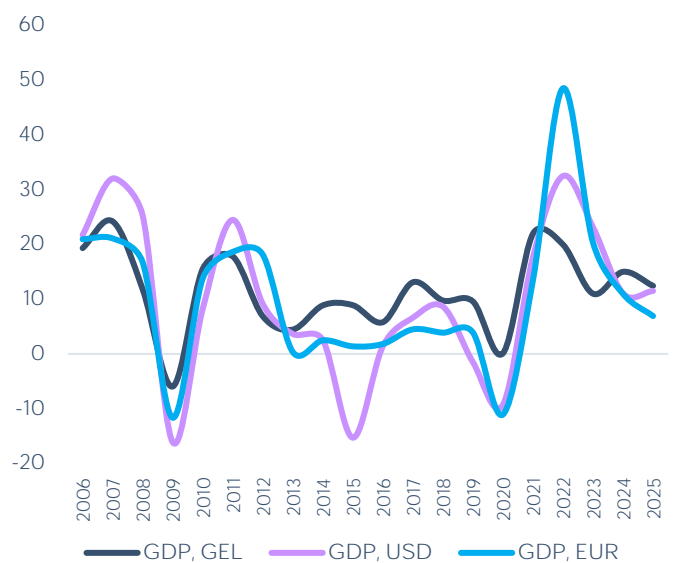
- a) the Georgian economy is much more aligned with EU economic cycles, and thereby growth tends to be higher when the EUR is stronger (Figure 2);
- b) while the dollar is the top invoicing currency in Georgia, due to its aforementioned dominance, the EUR fits the role of the underlying currency much better – a crucial distinction – seeing as [the EU remains the largest source of FX inflows](#), while other major partners (oil producers, neighbors) are also more aligned with EU cycles. The historical strong inverse relationship between the greenback and oil prices, also related to point c) below, has implied a double shock for commodity exporters, which make a substantial part of FX inflows in Georgia. However, this inverse relationship has weakened considerably since 2022;
- c) the USD safe haven status has historically implied a stronger USD during global recession risks ([the risk-off corner of the “dollar smile”](#)), exacerbating the decline in times of stress in dollar terms.

FIGURE 1: THE GEL IS MORE STABLE AGAINST THE EUR OVER LONGER HORIZONS (Volatility defined as annualized standard deviation)



Source: NBS, TBC Capital

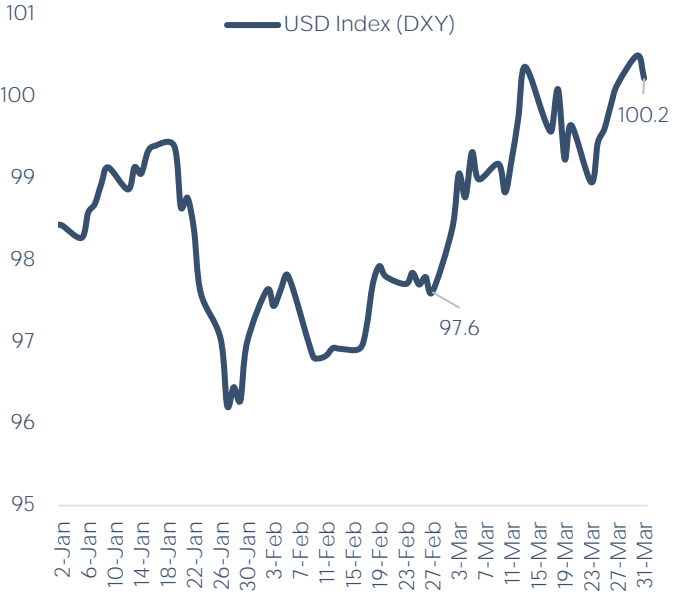
FIGURE 2: GDP GROWTH IN GEORGIA HAS BEEN MUCH MORE VOLATILE IN THE USD (YoY, %)



Source: Geostat, TBC Capital

Altogether, this relative stability of the GEL against the EUR forms one of the backbones of the [TBC Capital optimal FX strategy](#), implying a higher optimal share of EUR borrowing, all other things equal. However, amid recent turmoil in global markets following the Middle East escalation, we return to reevaluate one of these key drivers: the USD safe haven status. Although the optimal FX strategy aims to guide medium-term decisions without overreacting to near-term volatility, particularly relevant currently, short-term developments might carry material implications for the longer-term outlook. In this context, it is essential to understand what has driven the response of global markets to the ongoing hostilities and whether it warrants a change in our optimal borrowing recommendations – the one question that we left open in [last week’s one-pager](#).

FIGURE 3: THE USD HAS GAINED STRENGTH IN MARCH (Weighted index, as of 31-Mar-2026)



Source: Bloomberg

So, **what’s** the commotion? The USD has gradually gained strength over the past month – the weighted USD index (DXY) is at a YTD high, up 2.7% compared to 27 February (Figure 3), while the EUR/USD has weakened from 1.18 to 1.15, briefly down to 1.14 in between. The question **that’s** on **everybody’s** mind is what in particular has been pushing the greenback up and, by extension, how sustainable the rally is. Have reports about [the death of the USD safe haven status](#) been greatly exaggerated? Or is the USD strength likely to fade once the conflict dies out, whenever it does? To help answer these questions, we return to a familiar topic: gold.

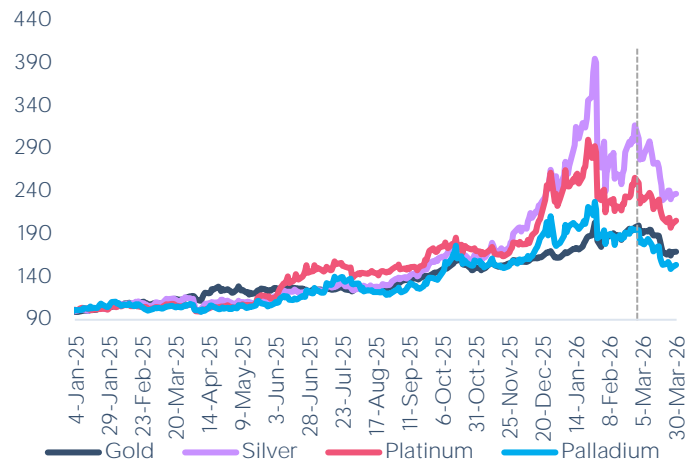
TBC Capital readers will recall [our November publication](#), where we argued that the drivers behind surging gold prices implied a USD-negative outlook over the medium term. It is natural to ask, then, whether the plunge in prices now point to the opposite. We say no, and **here’s** why.

**Let’s** begin in chronological order. In the immediate aftermath of the conflict, [both the USD and gold went up](#), consistent with safe-haven flows. Soon, however, the divergence became apparent, with the greenback continuing to rise, while gold prices began to decline. We have been highlighting the gradual erosion of the USD safe haven status – in fact, [demonstrated vividly during the previous 12-day war in the Middle East in June 2025](#) – thus arguing for a higher USD share in FX borrowing, all other things constant. If this trend were to reverse and the greenback were to attract the bulk of safe haven inflows as it did in the past, we would accordingly need to revise the recommendation – after all, it is not the best idea to borrow in a currency that strengthens when sales and profitability are down.

Instead, it appears that it is not that the USD has become the ultimate safe-haven asset, but that safe-haven flows themselves – while certainly not completely missing – have been eclipsed by a range of other developments:

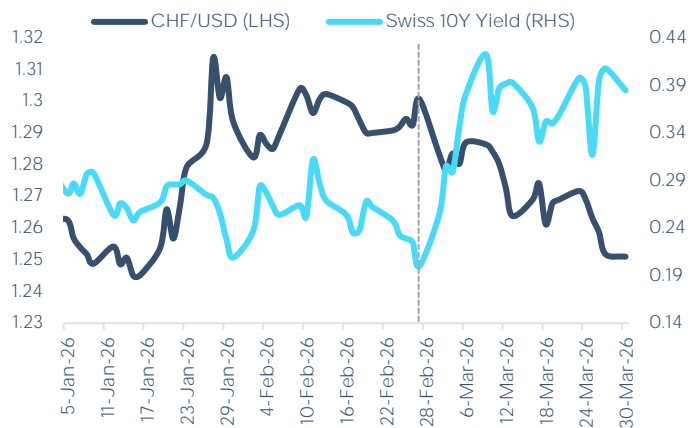
- First, all traditional safe-haven assets are down since the war (Figure 4). It is not just gold that has taken the hit, but every other precious metal as well, [which had been rising in tandem throughout 2025](#). At the same time, while the JPY has had its issues, the CHF has also lost ground against the USD, and yields on Swiss bonds have gone up – again, as opposed to June 2025 (Figure 5). Where, then, have all the safe-haven flows gone? Modest USD gains are certainly not enough to account for them, [especially considering that the oil shock is a USD-positive driver on its own](#), bringing a terms of trade improvement seeing as the US has become a net oil exporter. Furthermore, the US stock market shows little sign of stress that would be consistent with an outflow from perceived risky assets. It appears safe-haven flows just **aren't** the main story right now.
- Instead, yields have risen across the board due to inflation concerns. [Back in May 2025](#), we argued – tongue in cheek, but only partly – that the USD had begun to display emerging market currency traits, depreciating alongside rising yields. Well, no longer. [As the markets have begun to aggressively reprice interest rate paths](#), with the Fed traditionally perceived as the most active central bank among major economies, yields have surged, supporting the greenback and raising the opportunity costs of non-yielding assets such as gold (Figure 6).

FIGURE 4: THE RALLY IN PRECIOUS METALS STOPPED IN JANUARY, WITH PRICES FALLING AGAIN SINCE 27-FEB (Index, 1-Jan-25 = 100)



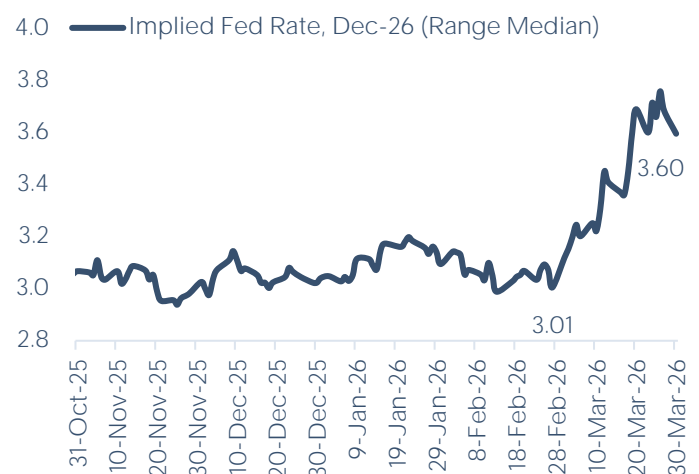
Source: Bloomberg

FIGURE 5: THE CHF, TRADITIONALLY A VERY STRONG SAFE HAVEN, HAS ALSO WEAKENED



Source: Bloomberg

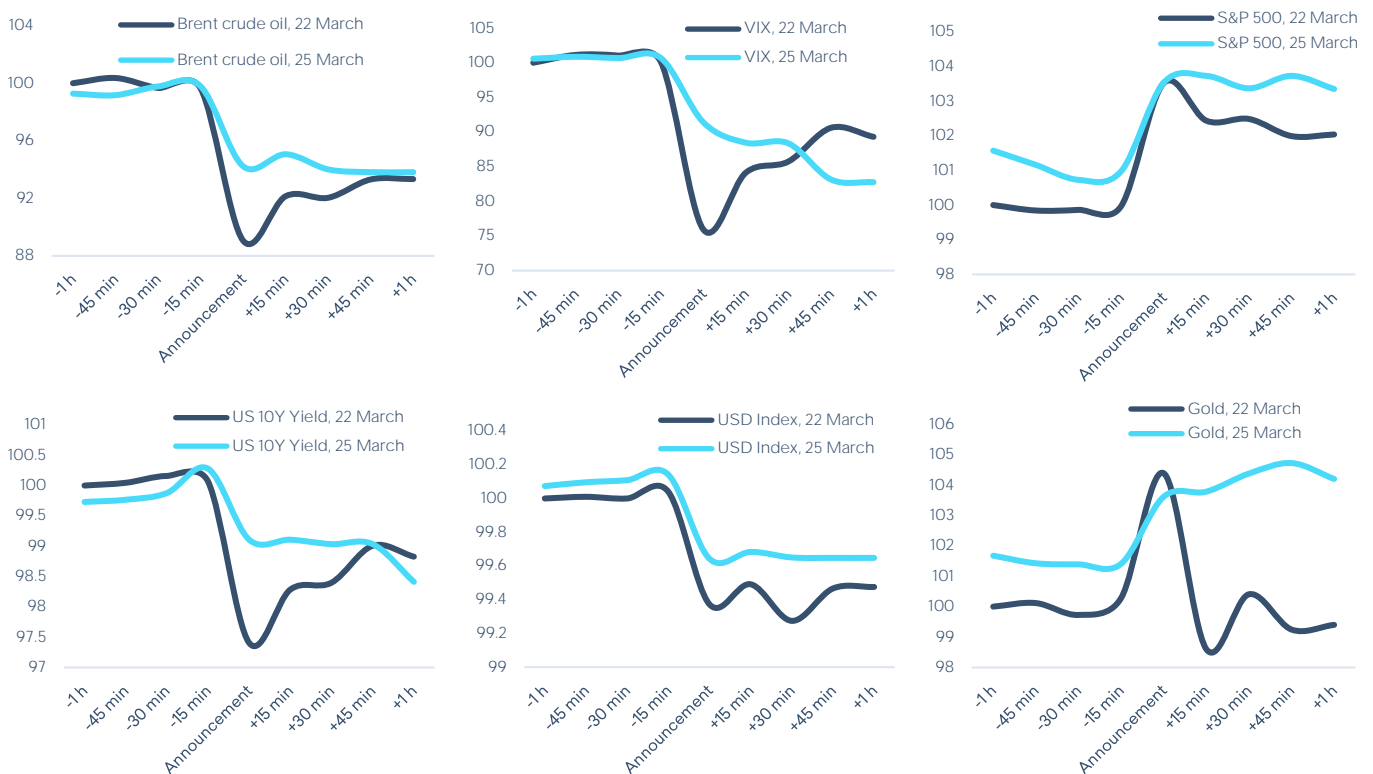
FIGURE 6: THE MARKET NOW EXPECTS NO FED RATE CUTS THROUGHOUT 2026 (Implied by 30-day Fed Funds futures prices, as of 30-Mar-2026)



Source: CME, TBC Capital

- Furthermore, despite its reputation, [gold is hardly a reliable inflation hedge except for the very long term, and its correlation with equities has increased significantly over the past few years](#). Traditionally, the impact of investors seeking safe haven in US treasuries would have been opposite, depressing yields. It is important to recall that the historical inverse relationship between the USD and gold rests precisely on yields, in particular – real yields. While this relationship largely broke down since 2022, it tends to resurface periodically. That said, growing inflation expectations limit the rise in real yields, so there are other forces at play too.
- An event study-type analysis of movements across asset classes reveals that it is indeed inflation concerns that dominate markets. On 23 March, US president Trump announced on social media that there had been “**very good and productive conversations with Iran**” and planned strikes on energy infrastructure had been paused. On 25 March, first confirmed reports began to emerge that the US and Iran were negotiating through third parties. In both cases, despite all the uncertainty, markets reacted in exactly the same way (Figure 7). Oil prices fell immediately, as did expected volatility on the stock market, while equities rose. Meanwhile, US yields dropped across the curve, while the USD weakened. So far, so good. This suggests that inflation fears were partially alleviated on the hopes of a resolution in the energy crisis, also improving economic prospects. Against this backdrop, gold prices should have also fallen, right? Wrong. In fact, gold bounced back strongly. The exact opposite picture is evident in the early hours of **today’s** trading, after president **Trump’s** address to the nation declaring that the war will continue over the next few weeks. It follows that the downturn in gold prices post-war is not a result of safe-haven flows into other assets such as the USD, seeing as a decline in uncertainty triggered an upswing in gold, and vice versa.

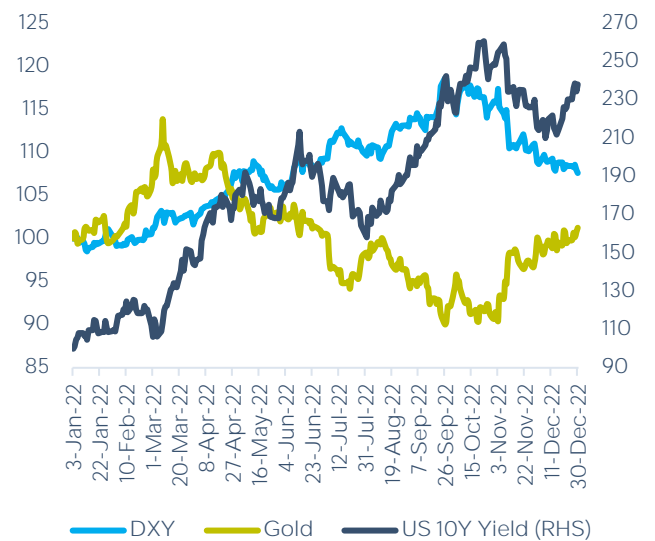
FIGURE 7: DE-ESCALATION NEWS TRIGGERED AN IMMEDIATE DROP IN OIL PRICES, VOLATILITY, YIELDS AND THE USD, WHILE EQUITIES AND GOLD RALLIED, A TELLTALE SIGN OF INFLATION FEARS OVERRIDING THE SAFE HAVEN STORY (Index, 1 h before announcement = 100)



Source: Bloomberg

- The primacy of inflation pressures over safe-haven flows is not without precedent. In fact, one need not look too far for a similar case. In the span of a week following the Russian invasion of Ukraine in 2022, gold prices surged by 8.5%, with the USD up by 2.5% and 10-year yields on US treasuries declining by 5.9% (Figure 8). As the Fed began to hike and inflationary expectations grew, 10-year yields increased from 1.7% in the beginning of March to 4.2% in early November, while the USD index (DXY) appreciated by 16.8% and gold prices actually fell by 13.8%. In November, after the US inflation report, markets started to believe that inflation had peaked, resulting in a drop in yields and the USD, and a renewed rise in gold prices. The parallel is hard to miss – even during episodes of stress, in the presence of inflation fears, safe-haven flows might not take ultimate precedence.

FIGURE 8: A SIMILAR TRADE-OFF BETWEEN INFLATION FEARS AND SAFE HAVEN FLOWS WAS ALSO EVIDENT IN 2022 (Index, 1-Jan-22 = 100)

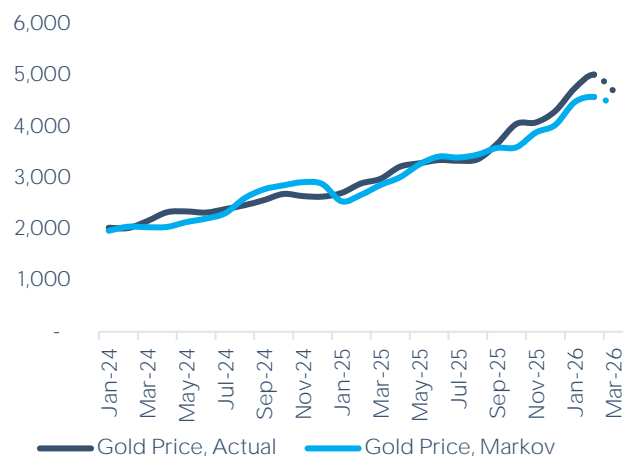


Source: Bloomberg

At the same time, observed volatility indicates that it is not just the inflation story that has been behind erratic gold prices. We **don't** yet have high-frequency data to back this up, but, based on our previous findings and likely outcomes, there might be a few additional idiosyncratic drivers that may not have been there in the past:

- First, while we identified several structural drivers that had been supporting the surge in gold prices in November, [we also highlighted that speculative activity had been playing an important role](#), as volatility had spiked and trend shifts could easily be traced back to specific events. After all, we named the publication “**Gold Rush**”, as in an influx of new investors. In fact, we argued that it was growing demand from ETFs and, more broadly, institutional investors that had been driving the rise in prices. In this context, short-term profit-seeking amplifies moves in both directions. Many investors got in to ride the wave, evident in ETF flows, and likely tried to get out once prices began to decline. As new demand boosted prices beyond fair levels, the sell-off could just as well have overly depressed them. That said, [our own in-house model, which indicated overvaluation in November](#), now points to the price broadly consistent with fundamentals (Figure 9).

FIGURE 9: OUR IN-HOUSE MODEL INDICATES THAT THE PRE-EXISTING OVERVALUATION HAS NOW LARGELY BEEN CORRECTED



Source: Bloomberg, TBC Capital

- The rise of technology brings not just a new investor base with it through ETFs and trading applications, but also a host of algorithms. It's likely that the decline in prices triggered margin calls and automatic trading transactions, as evident in outsized daily drops. Furthermore, even without forced selling, many investors seek liquidity during such times. It is true at the same time that one buys gold to hedge for tomorrow, but sells gold – alongside other assets – when worrying about losing money today.
- As a result of precious metal prices reaching record-high levels prior to the Middle East escalation, many investors likely simply cashed in their gains, not least of them – central banks, for various reasons. The Turkish central bank sold c. USD 8 billion worth of gold over the past few days to support the TRY. It's not long ago that the Polish central bank [was proposing to monetize the revaluation gain](#), and the Russian central bank has been selling gold since January, with holdings now down to pre-2022 levels. While the [underlying trend of central banks accumulating gold](#) holds, particularly in emerging markets, this does not exclude near-term sales.

If the USD rally has not been triggered by safe-haven flows, what can we say about other medium-to-long term drivers [that we had highlighted](#) for the greenback outlook? Ongoing events are not particularly helpful to reverse the debasement trade, on the contrary – funding the war is expensive, and US fiscal concerns are set to worsen, not improve. The Fed independence issue appears no closer to being resolved, which might affect even conventional rallies such as the current one, should the market determine that the Fed is less likely to raise rates despite inflationary risks going forward. The structural de-dollarization of central bank reserve assets is also likely to persist, as geopolitical uncertainty continues to threaten the pre-existing world order. The same can be said about the weakening of the USD role as the **world's** reserve currency. In fact, the latter has strongly been supported by the fact that oil is globally priced in USD – the so-called petrodollar. This regime might come under pressure in light of potential geopolitical changes in the Gulf. In the longer run, the petrodollar anchor might therefore weaken, particularly if the usage of fossil fuels in itself also declines over time. Consequently, this might represent another structural downside for the greenback, even if it alone, naturally, is unlikely to spell the end of the USD dominance. Of course, [as we noted before](#), the challenge to the USD primacy is certainly not without precedent. The caveat is that, on balance, *this time* it might actually be different.

Overall, circling back to the opening, we would again recommend to focus on medium-to-long run drivers, which, we believe, remain USD-negative. Therefore, the EUR should strengthen again once the war ends, particularly considering that [it remains undervalued against the greenback](#). What does this mean for the optimal FX strategy? Well, we maintain that a) [the GEL outlook is broadly balanced](#) and b) it is optimal to borrow relatively more in the USD, even if to a lesser extent due to smaller EUR misalignment, albeit with a cautious tilt for shorter-term exposures, as many geopolitical scenarios imply significant upsides for the USD. Just how much exactly? There is no alternative for tailored assessments, though an indicative guide can be found in [last week's one-pager](#).

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