PRECISION PIPS

MACROECONOMICS SERIES

PART 6

DXY & GOLD

How the US Dollar Index relates to XAUUSD, and how to use it as context

Expanded edition with ICE, World Gold Council and market-data context

DXY | EURUSD | YIELDS | XAUUSD



Next lesson: Part 7, Treasury Yields & Gold

Educational material only. Not financial advice. Trading involves substantial risk of loss.

• About this lesson

Welcome back to the Precision Pips macroeconomics series. Today we study one of the relationships gold traders watch most closely: the **US Dollar Index (DXY)** and **XAUUSD**. Understanding it can help you build a macro bias before ICT/SMC concepts refine your entries.

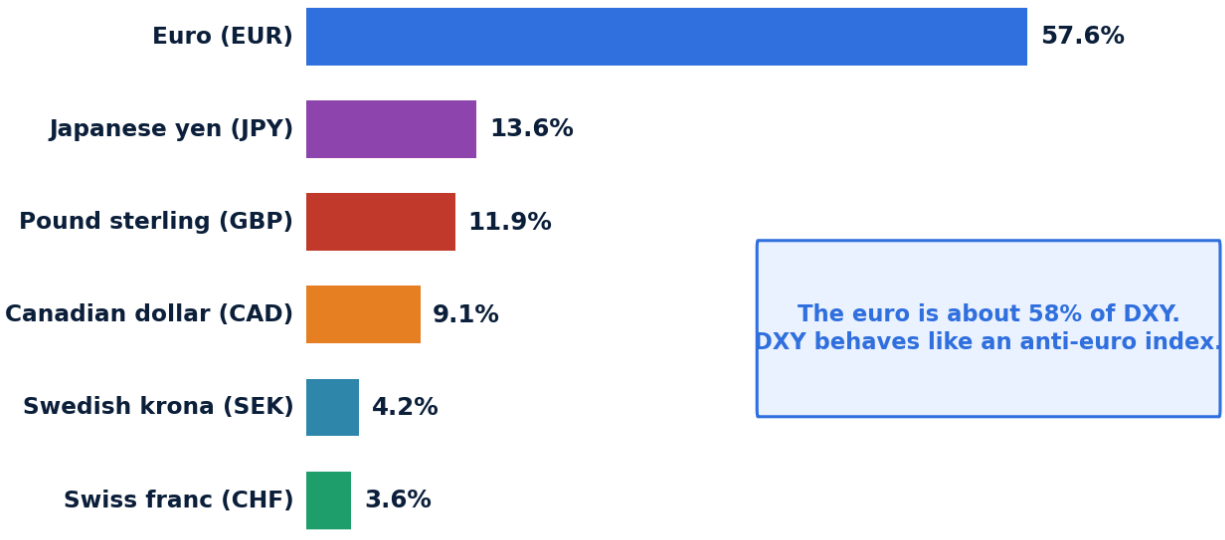
> **The key lesson**
>
> DXY is a **confirmation tool**, not a signal. It can inform a hypothesis about gold, but it never guarantees where gold will go.

What this expanded edition adds

- The **exact basket weights** and what they imply (the euro is about 58% of the index).
- A worked example of the **local-currency channel**: why a stronger dollar makes gold dearer for non-US buyers.
- World Gold Council research on the **asymmetric** gold-dollar relationship, and its 2026 demand data on who buys gold.
- How to **measure** the relationship with rolling correlation, and why it keeps changing.
- A snapshot of **October 2026**: a firm dollar, high yields and a weak euro.
- A dual-chart ICT/SMC model (DXY above, gold below), a release-by-release table, extra checklist items and sources.

1 What is DXY?

The US Dollar Index measures the dollar against a basket of **six currencies**. It is a weighted geometric mean, launched in March 1973 with a base value of 100, and is designed, maintained and published today by ICE.



Weights have been fixed since the euro replaced several European currencies in 1999.

Figure 1 — DXY basket weights. The euro dominates.

Fact	Detail
Basket	Euro 57.6%, yen 13.6%, pound 11.9%, Canadian dollar 9.1%, Swedish krona 4.2%, Swiss franc 3.6%
Method	Weighted geometric mean of the dollar against each currency; base 100 in March 1973
Changes	The composition has changed only once, in 1999, when the euro replaced several European currencies
Trading	ICE US Dollar Index futures trade about 21 hours a day with March / June / September / December expiries
Quotes	Chart symbols differ (spot-style index versus rolling futures). Use the same symbol consistently and expect small differences

- **DXY rising** means the dollar is strengthening *against that basket*; **falling** means weakening against it.
- It is **not** the dollar against every currency, and it does not measure purchasing power.
- Because the weights are fixed, DXY omits currencies such as the Chinese yuan. The Federal Reserve publishes a broader trade-weighted dollar index (created in 1998) for that reason.
- **Practical rule:** before you read a DXY move as broad dollar strength, check EURUSD. With the euro near 58% of the index, DXY can rise just because the euro is weak.

2 Why does DXY matter to gold?

Gold is quoted in US dollars. When the dollar strengthens, an ounce priced in dollars becomes **more expensive in other currencies**, which can weigh on demand. When the dollar weakens, the same ounce is cheaper for those buyers.

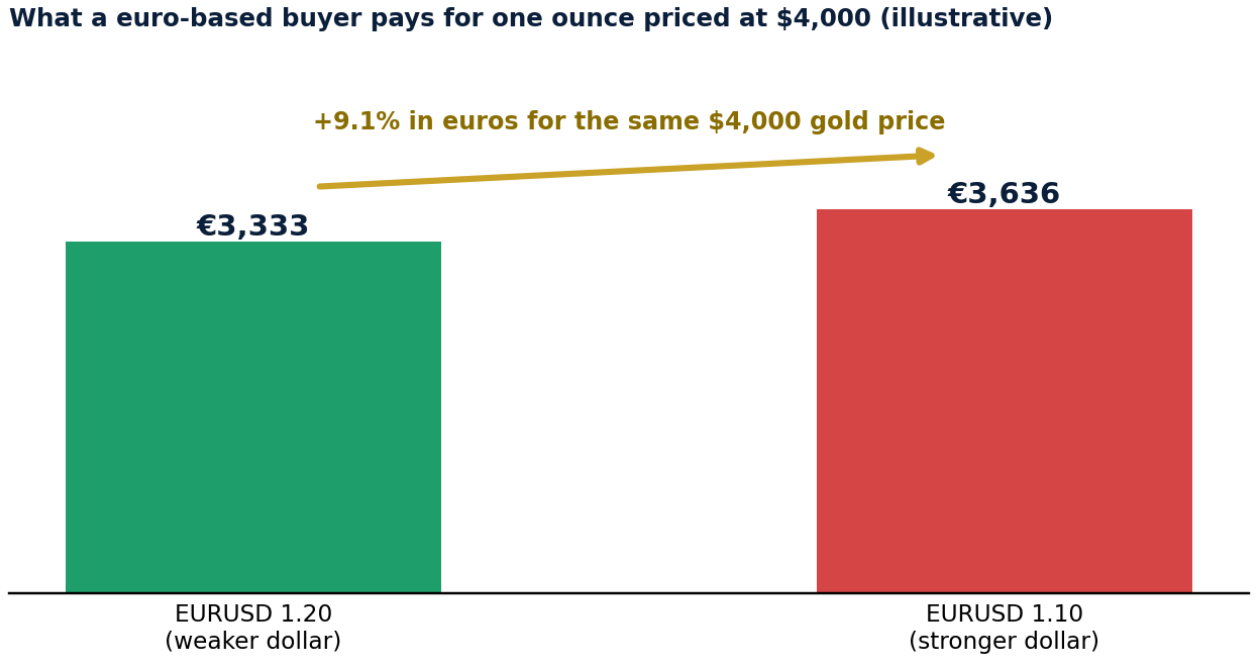


Figure 2 — The local-currency channel in numbers: the same $4,000 ounce costs a euro-based buyer about 9% more when EURUSD falls from 1.20 to 1.10.

The relationship is not symmetric

The World Gold Council studied average annualized gold performance in different dollar regimes (January 1972 to June 2016). Gold gained about 19% a year when the dollar was falling, about 8% when flat, and lost about 6.5% when the dollar was rising. A weak dollar helped gold more than a strong dollar hurt it.

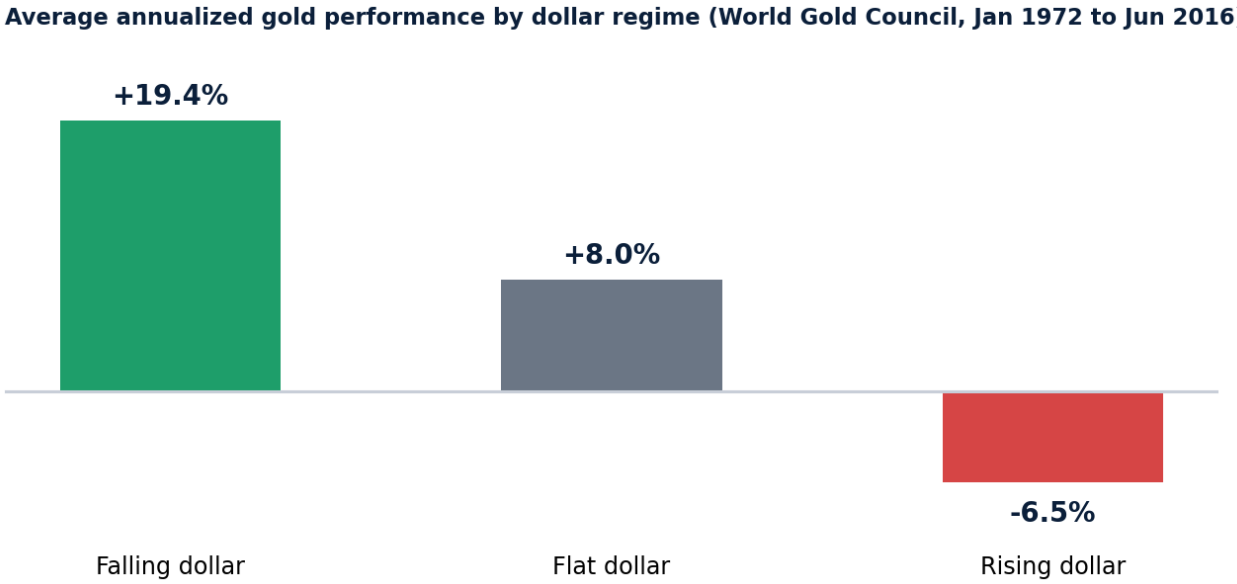


Figure 3 — Gold across dollar regimes, as published by the World Gold Council. Past performance is not a guide to the future.

- The WGC explains that what matters most to consumers and investors outside the US is the price in **their** currency, so gold behaves more like a broad hedge against fiat currencies than only a dollar hedge.
- In some episodes, notably safe-haven episodes, gold and the dollar have **both** risen together.
- A rising dollar is therefore a headwind, not a verdict.

3 The three DXY-gold scenarios every trader should know

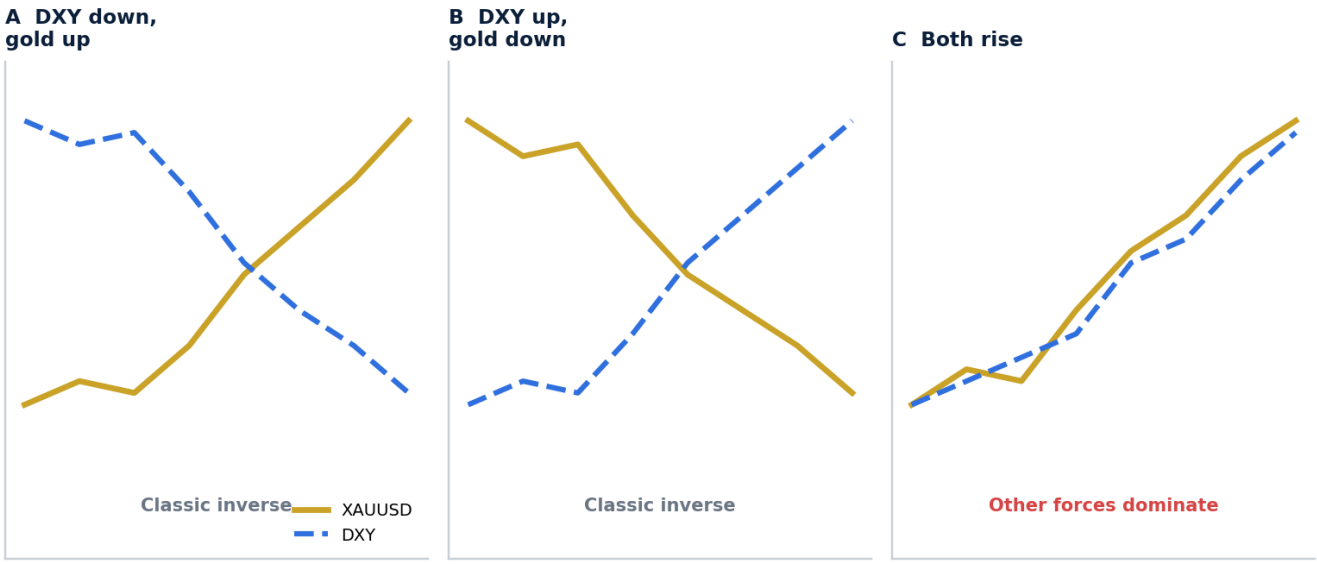


Figure 4 — Scenarios A, B and C. Paths are schematic.

Scenario	What happens	ICT/SMC idea
A DXY bearish, gold bullish	The classic inverse. Gold holds support or trades higher and may seek buy-side liquidity	Look for a sell-side sweep, bullish displacement and MSS, then assess a retracement into an FVG or OB
B DXY bullish, gold bearish	Another classic inverse. Gold struggles at resistance or trades lower and may seek sell-side liquidity	Watch for a buy-side sweep, bearish displacement and MSS. A retracement into a bearish FVG or OB is an area to evaluate, not an automatic entry
C Both move the same way	Do not force the inverse. Possible reasons: safe-haven demand, news affecting each differently, real yields or central-bank purchases, positioning	Pause and reassess. Do not invent a setup to fit your expectation

> **Do not stop at three**
>
> A fourth case also happens: both fall. A softer dollar with rising yields, or forced liquidation, can pull gold down alongside DXY. The point is that the relationship is a tendency, not a law.

4 What actually moves DXY?

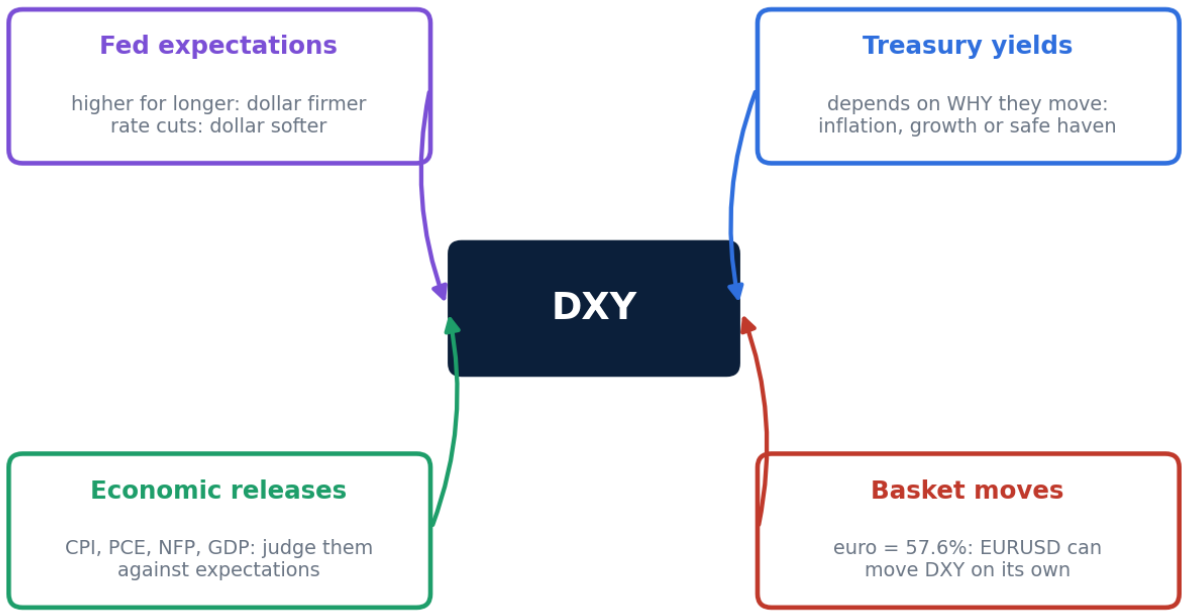


Figure 5 — Four things that move DXY.

- **Fed expectations.** Higher for longer tends to firm the dollar; cuts tend to soften it. What matters is what was expected beforehand (see Part 5).
- **Treasury yields.** Rising yields can support the dollar, but the reason matters: inflation fears, growth optimism and safe-haven demand can have different effects.
- **Economic releases.** CPI, PCE, NFP, unemployment and GDP change expectations for the Fed. Strong data is not automatically dollar-bullish; compare it with expectations.
- **Basket moves.** A big EURUSD move can move DXY on its own. Ask whether the dollar is broadly strong or one component is weak.

Snapshot: early October 2026

Item	Reported level	Source type
DXY	about 102.3 (week high 102.535)	Market report, Thursday after the September FOMC minutes
US 10-year yield	about 5.30%	Same report
Euro	near its lowest since May 2025 on French debt worries	Same report
Gold (spot)	4,121.54 on 6 October, near a two-month low	Broker analysis
FedWatch, 28 October	about 81% hold, about 19% hike	Same report
FedWatch, by 9 December	about 86% for at least one hike	Same report

What this teaches: part of the dollar's strength came from euro weakness, and gold faced high yields at the same time. If you only looked at DXY you would miss that two channels (euro weakness and yields) were both involved. Levels are as reported by the sources and will have moved since.

5 DXY, yields and gold: one chain, several links



Figure 6 — A useful way to organize macro analysis.

- **Yields and DXY are related, but neither always follows the other.**
- **Real yields** (roughly, nominal yields minus expected inflation) matter because gold pays no interest.
- Example: softer inflation may cut Fed expectations, lower yields and weaken DXY, supporting gold. If the same release shows severe stress and investors want cash, gold's first reaction can differ.

Who buys gold, and who is dollar-sensitive?

Buyer (WGC Q2 2026)	Reported flow	Typical link to the dollar and rates
Gold ETFs	-45 tonnes in Q2	Western ETF interest may be more closely linked to real yields, US policy expectations and the dollar
Central banks	+289 tonnes in Q2 (+62% y/y)	Driven more by reserve diversification and risk than by short-term dollar moves
Bars and coins	307 tonnes	Mixed: local price and sentiment matter
Jewellery	278 tonnes (lowest quarterly volume since the pandemic)	Highly price-sensitive; high prices curbed demand

The LBMA PM gold price averaged $4,506 an ounce in Q2 2026, 8% below the record first-quarter average but 37% above a year earlier. In that quarter, ETF outflows coincided with higher rate expectations and a stronger dollar, while central-bank buying helped total demand hold steady.

6 How the relationship behaves: correlation changes

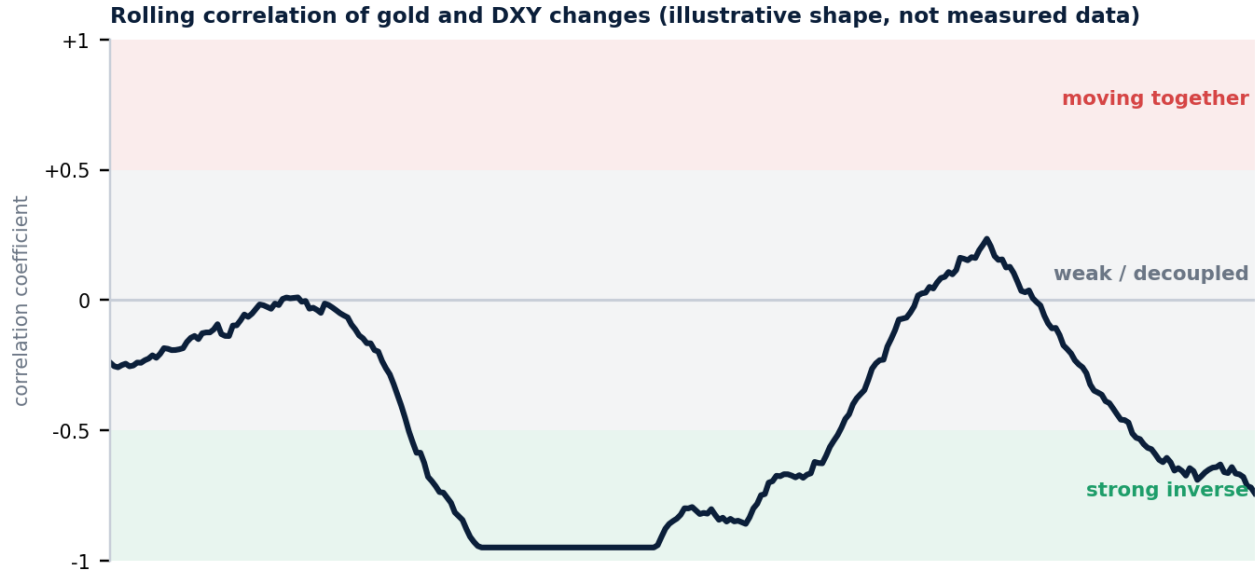


Figure 7 — Correlation is not constant. The shape is illustrative.

- A **correlation coefficient** runs from -1 (perfect inverse) through 0 (no linear relationship) to +1 (move together).
- Measure it on **changes** (returns), not on price levels, over a rolling window such as 20, 50 or 100 bars, on the timeframe you actually trade. Most charting platforms offer a correlation indicator, and a spreadsheet CORREL function does the same job.
- Expect it to move between regimes. A strong inverse reading today says little about next month.
- **Correlation is not causation.** A reading tells you how the two have been moving together, not why.
- Use it as context: if the rolling reading is strongly negative, DXY is more useful as confirmation; if it is near zero or positive, lean on gold's own structure.

7 How to use DXY with ICT/SMC

DXY helps you form a directional hypothesis. Gold's chart tells you whether that hypothesis is supported by actual price delivery.

Step	What to do
1 Higher-timeframe context	On H4 and H1 mark gold's dealing range, major swings, premium/discount, FVGs and order blocks
2 Read DXY's structure	Higher highs and lows, or lower highs and lows? Mark nearby liquidity and key zones on DXY too
3 Build a conditional bias	"If DXY keeps delivering bearishly and gold confirms bullish structure, I prioritize longs." A hypothesis, not a prediction
4 Wait for gold to confirm	On M15 or M5: sweep, displacement and MSS/CHoCH. A break without displacement is less convincing
5 Evaluate the retracement	FVG, OB or another PD array. Define invalidation and risk before entering
6 Reassess on disagreement	If DXY turns bullish while gold stays bullish, do not sell gold immediately. Wait to see whether the divergence persists or resolves

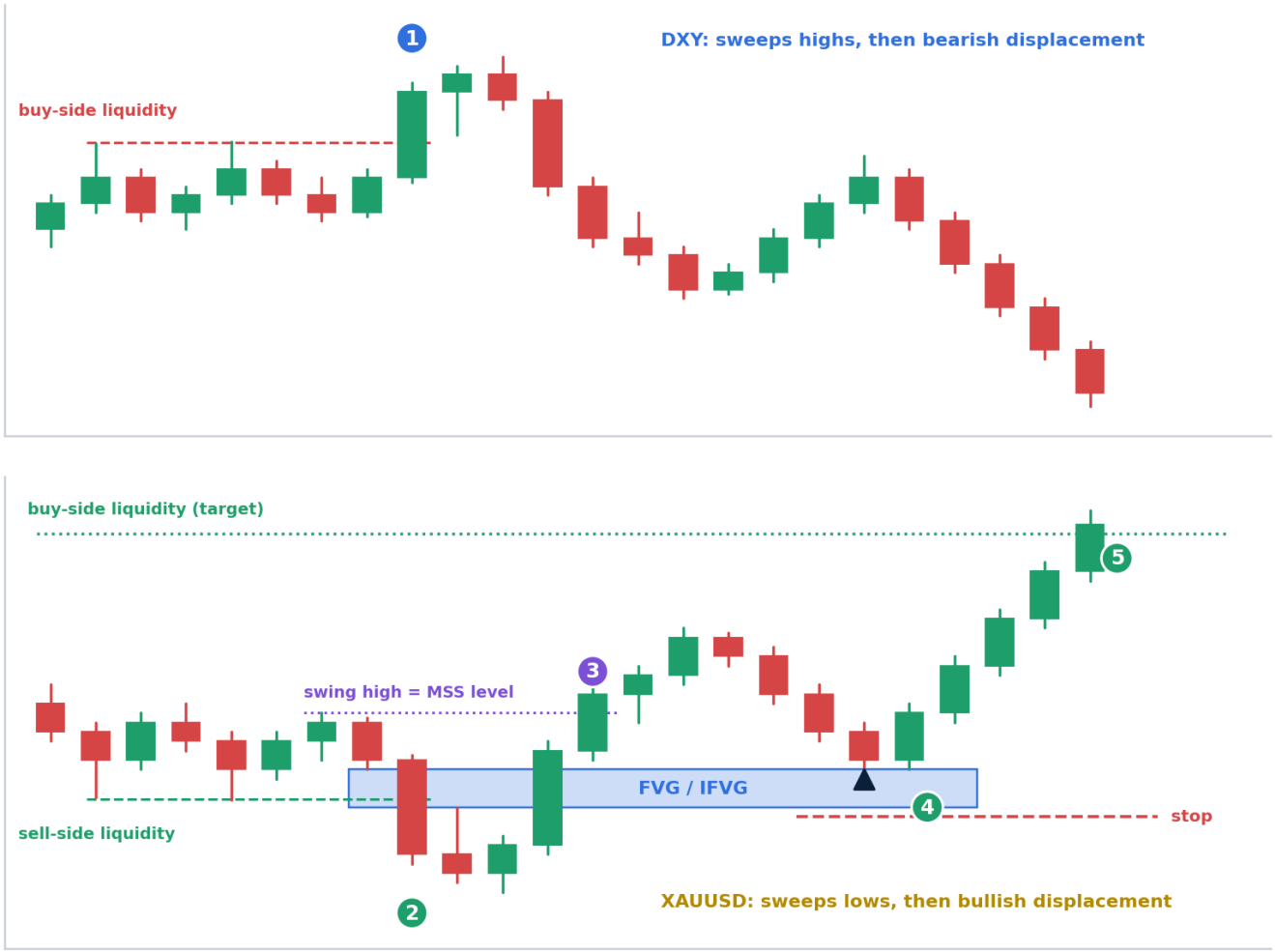


Figure 8 — A bullish gold setup with DXY as context. Top: DXY sweeps highs and delivers bearishly. Bottom: gold sweeps lows and delivers bullishly (illustrative).

1	**DXY** takes buy-side liquidity, then displaces lower.
2	**Gold** sweeps sell-side liquidity at the same time.
3	**Bullish displacement and MSS** through a short-term high.
4	**Retracement** into the FVG: entry with stop below.
5	**Target** buy-side liquidity above.

> **An idea to test**
>
> Some ICT traders also compare gold with DXY for **inverse SMT**: gold takes a low while DXY fails to take its matching high (or the reverse). This is a technique to test and journal, not a rule from the lesson sources. As always, it supports the idea and does not replace gold's own confirmation.

8 Analyzing DXY across your timeframes

Timeframe	What to look for
H4	Broad dollar structure, major liquidity and important zones
H1	Current directional delivery, swings and reaction to macro news
M30	Intermediate structure and potential liquidity objectives
M15	Confirmation of displacement and market structure
M5	Entry refinement after confirmation, not prediction alone

You do not need every timeframe to agree perfectly. The aim is to understand the broader context and judge whether your entry timeframe offers a reasonable setup. Add one more check: **look at EURUSD beside DXY** to see whether the move is broad or euro-driven.

9 A worked scenario: DXY strengthens after NFP

Suppose US employment data beats expectations. Traders price a less accommodative Fed, Treasury yields rise, and DXY breaks above a previous H1 high. Gold dips toward a known support zone.

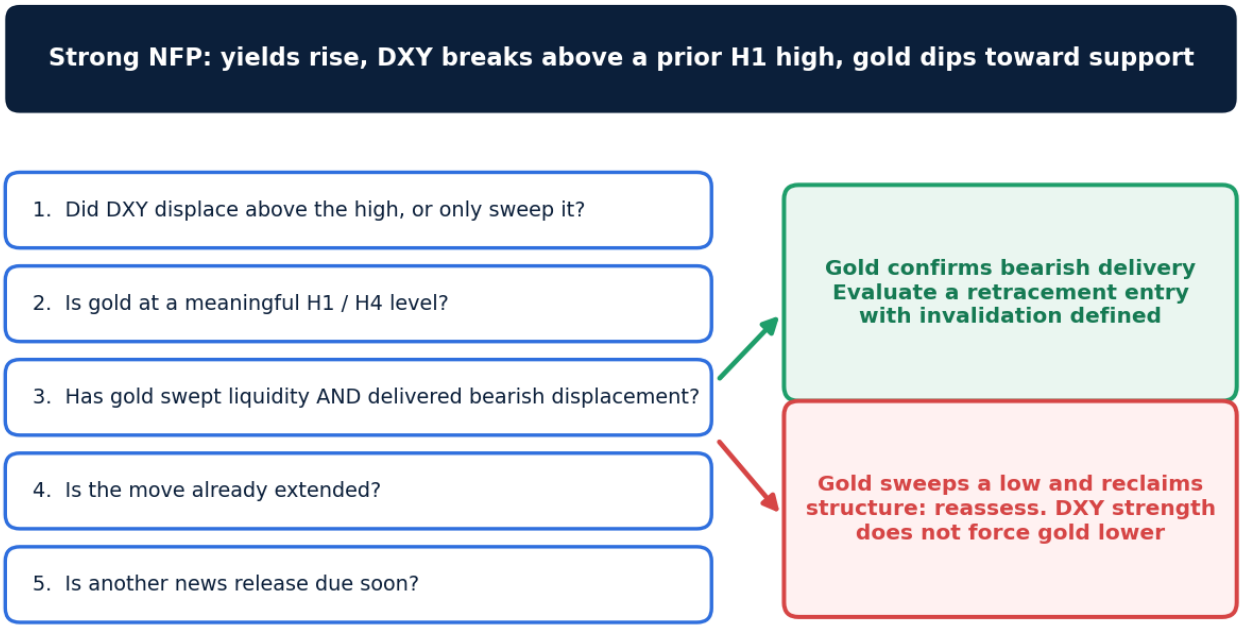


Figure 9 — Five questions, then two possible outcomes.

> This is the difference between using DXY as **context** and using it as a **blind trading signal**.

10 Where the releases fit in

Release	Why it matters for DXY	Possible effect on gold (conditional)
CPI / PCE	Changes expectations for Fed policy	Hotter than expected: yields and DXY may rise, gold may be pressured. Softer: the reverse
NFP / unemployment	Shows labor strength; shifts rate expectations	Strong data can lift DXY; weak data can weigh on it, subject to inflation context
FOMC and projections	Directly resets the expected path of rates (Part 5)	A hawkish surprise versus pricing can lift DXY and pressure gold
Euro-area or French news	The euro is 57.6% of DXY	Euro stress can lift DXY even without any US news

Every row says “may”. Compare each release with what was expected, then watch the actual price reaction.

11 Common mistakes to avoid

- Assuming a perfect inverse correlation: DXY and gold can rise or fall together.
- Entering solely because DXY moved. Gold must provide its own setup.
- Reading a DXY move as broad dollar strength without checking EURUSD.
- Ignoring the news context: a move driven by inflation fears can behave differently from one driven by safe-haven demand.
- Treating a sweep as a breakout. Look for displacement and follow-through.
- Chasing after a major release. Spreads and volatility rise, and the first direction can reverse.
- Mixing DXY symbols or contract months, which can create false gaps and false divergences.

- Ignoring risk management. No macro bias removes trading risk.

12 Pre-trade checklist

	Check	Meaning
☐	**Higher-timeframe context**	I have identified gold's H4/H1 structure and important liquidity.
☐	**DXY structure**	I know whether DXY is trending, ranging, sweeping liquidity or breaking structure.
☐	**EURUSD check**	I have checked whether the DXY move is broad or euro-driven.
☐	**Macro catalyst**	I understand the relevant news and whether it changed rate expectations.
☐	**Correlation context**	I have looked at the recent rolling relationship, not assumed it.
☐	**Gold confirmation**	Gold has given its own structure and displacement in support of my setup.
☐	**Entry and invalidation**	I have a defined entry area, invalidation point and position-risk limit.
☐	**Volatility check**	I have checked scheduled news, spreads and the chance of a reversal.

13 Final takeaway

DXY is a valuable tool for understanding the dollar side of the gold market, especially alongside Treasury yields, Fed expectations and economic releases. Keep your process clear:

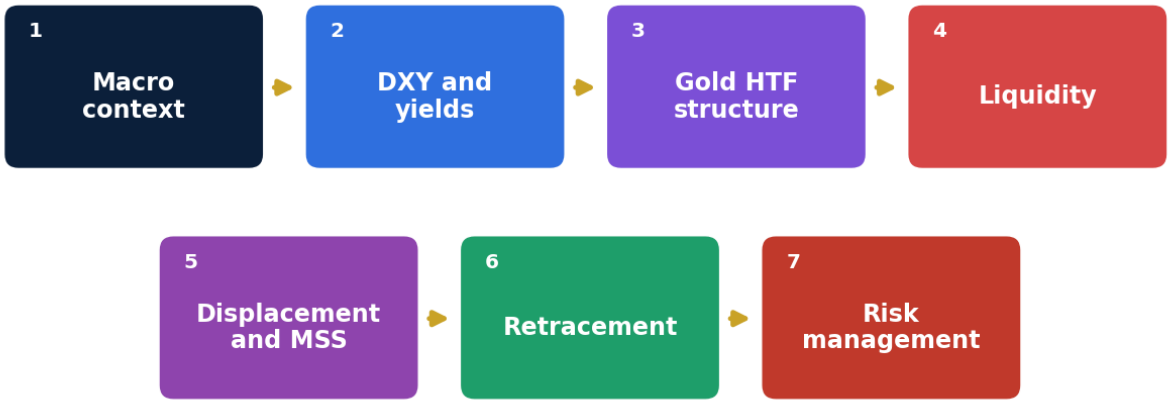


Figure 10 — Macro context, DXY and yields, gold's structure, liquidity, displacement and MSS, retracement, risk management.

PRECISION PIPS PRINCIPLE

DO NOT FORCE GOLD TO FOLLOW DXY.
LET THE RELATIONSHIP INFORM YOUR ANALYSIS.
LET PRICE ACTION CONFIRM OR INVALIDATE IT.

Next lesson, Part 7: Treasury Yields & Gold

We will explore nominal versus real yields, why rising yields can pressure gold, why that relationship sometimes breaks down, and how to combine yield analysis with ICT/SMC.

14 Practice and self-check

	Practice tasks
1	For one week, record DXY and gold direction at the same time each day. How often did they move inversely?
2	Compute a 50-bar rolling correlation of H1 changes. Note when it crosses -0.5 and +0.5 and what the news was.
3	On three days when DXY moved sharply, check EURUSD. Was the move broad or euro-driven?
4	Write a conditional bias before the London and New York sessions, then record whether gold confirmed it.

Question	Answer
Which currency dominates DXY?	The euro, at 57.6%.
Why can a stronger dollar weigh on gold?	Gold gets more expensive in other currencies, which can weigh on demand.
Is the gold-dollar link symmetric?	No. Historically a weak dollar has helped gold more than a strong dollar hurt it (WGC).
Can DXY and gold rise together?	Yes, for example in safe-haven episodes or when other drivers dominate.
What should confirm a DXY-based idea?	Gold's own sweep, displacement and market structure shift.

• Glossary

Term	Meaning
DXY	US Dollar Index: weighted geometric mean of the dollar against six currencies.
Geometric mean	A way of averaging that multiplies values and takes a root, used for the index calculation.
Local-currency channel	How a dollar move changes what non-US buyers pay for gold.
Correlation coefficient	A number from -1 to +1 showing how strongly two series move together.
Rolling window	A recalculation over the latest N bars, so the reading updates over time.
Real yield	Roughly, a nominal yield minus expected inflation.
Inverse SMT	Comparing gold and DXY extremes for divergence, used as supporting evidence.

Sources

DXY basket, method and futures details: ICE-based reference material and the U.S. Dollar Index entry (Wikipedia). World Gold Council: “Gold's relationship with the dollar” research (via SEC-filed Gold Investor material), the April 2018 Investment Update (as reported by Business Standard and Xetra-Gold), and Gold Demand Trends Q2 2026 (executive summary and press coverage, including ING commentary). October 2026 market snapshot: FXEmpire (dollar index, yields, FedWatch), RoboForex (6 October gold analysis). July 2026 reference: MUFG via FXStreet. Reported levels differ between providers and will have changed. Educational only, not financial advice.