Gold rose on Tuesday as signs of stabilizing U.S. inflation pressures suggested the Federal Reserve is on track to start tapering its bond purchases later this year rather than imminently.

Bullion investors remain focused on Fed Chairman Ben Bernanke's semi-annual testimony to U.S. Congressional committees this Wednesday and Thursday, which will be watched for further signs about the timing and speed of its $85 billion monthly mortgage-backed securities buyback.

(Read More: Is gold's jump suggesting Fed tapering won't happen?)

The metal extended gains after the U.S. Labor Department said its Consumer Price Index increased 0.5 percent, the largest rise since February. However, it came below economists' expectation of 0.3 percent.

"The CPI figure is lower than what the Fed wants, so the gold market sees this as tapering is further away," said Carlos Perez-Santalla at brokerage Marex Spectron.

Spot gold rose 0.7 percent to $1,291.11 an ounce.

U.S. gold futures for August delivery rose $6.50 to $1290.10 an ounce.

Gold gained 5 percent last week, its biggest weekly gain in nearly two years, after Bernanke said the U.S. central bank needed to keep a stimulative monetary policy in place given an uncertain job market and low inflation.

Gold's appeal as a safe-haven and inflation hedge has been tarnished this year by a stronger dollar, rallying stock markets, improving bond yields, which all led to rapid outflows from gold-backed exchange traded funds.

The top eight gold ETFs monitored by Reuters have seen holdings drop by about 19 million ounces, or $24 billion at current prices, so far this year. This represents a 25 percent drop from its record high reached at the start of 2013.

On Tuesday, bullion was supported as the U.S. dollar came under pressure after disappointing U.S. retail sales for June on Monday raised doubts about an imminent reduction in stimulus by the Fed.

(Read More: History shows gold could fall another $500)

Physical Demand

Demand from the physical gold market remains strong but has showed signs of easing, dealers said.

Gold jewellery demand in top buyer India ebbed and was seen as unlikely to gain traction until late August, when seasonal buying during the autumn wedding season and religious festivals should pick up again.

Buying from China, which usually provides support for gold during Asian trading hours, was also subdued as buyers waited for clearer price directions, traders said.

Premiums for gold bars on the Shanghai Gold Exchange (SGE) fell to $25 over the London spot price.
from as high as $36 last week, capping price rallies.

**Silver** rose 0.3 percent to $19.95 an ounce, while **palladium** was up 0.6 percent to $732.75 an ounce.

**Platinum** eased 50 cents at $1,421.50 an ounce after data showed the European auto market was very weak in June. Europe is the main market for diesel engines, which mostly use platinum-based catalysts to clean up exhaust emissions.

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