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## **MARKET VIEWS**

# **Gold's Record Rally: Drivers, Risks and Market Dynamics**

**By**

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**16 October 2025**

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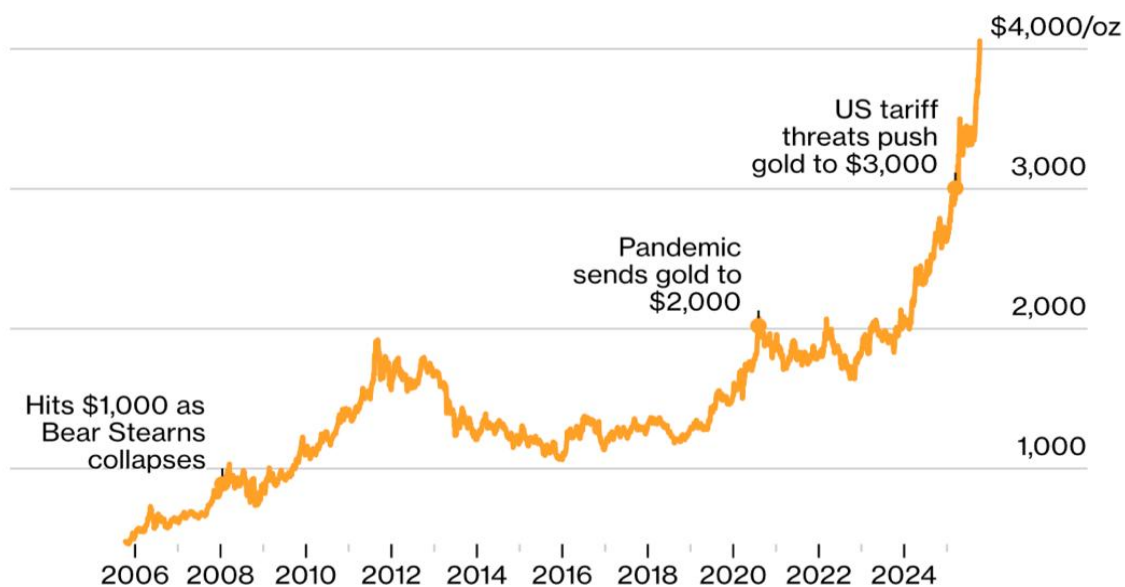
*Gold's Record Rally: Drivers, Risks and Market Dynamics*

16 October 2025

Executive Summary

- ✦ Gold's 2025 rally marks its return as the world's ultimate reserve asset, driven by dollar weakness, Trump's renewed trade tensions, and doubts over U.S. monetary independence, with prices above \$4,000 an ounce and central banks expanding holdings as investors seek refuge from fiscal and geopolitical uncertainty.
- ✦ Central banks have become the core buyers, now holding over 36,000 tonnes — more than Treasuries by value — as they shift reserves away from the dollar amid accelerating de-dollarisation.
- ✦ Expectations of Fed rate cuts, Trump's trade wars, and Japan's fiscal loosening under PM Takaichi have amplified safe-haven demand, reinforcing gold's role as the ultimate hedge in an unstable global economy.
- ✦ Gold's rally is increasingly driven by FOMO rather than fundamentals, as investors chase momentum and push prices higher alongside bitcoin, both now symbols of "fictitious capital" sustained by collective belief more than real value.
- ✦ The rally could falter if the dollar stabilizes, inflation eases, or global growth slows. Unlike past crises, today's markets show no signs of distress, with equities rising on AI optimism—meaning gold's boom may need a true shock to endure.
- ✦ While sceptics like Warren Buffett warn gold yields no income, others such as Ray Dalio and Ken Griffin see it as a new safe-haven asset. For now, its rise reflects not current crisis, but anticipation of one.
- ✦ Gold's rally reflects multiple forces — rising debt, geopolitical risk, U.S. trade tensions, weakening Fed independence, and expectations of lower rates — with Trump's policies amplifying broader fears of "fiscal dominance," where central banks prioritize debt financing over inflation control.
- ✦ As central banks boost gold reserves and investors turn to both gold and Bitcoin as havens from inflation and policy risk, the rally underscores a deeper shift — in a world of fiscal fragility and political volatility, trust has become the rarest currency.

Key Picture: Spot Gold Price



Source: [Bloomberg](#)

## Introduction

In 2025, gold has reaffirmed its status as the world's ultimate reserve asset. A weakening dollar, renewed trade tensions, and doubts over US monetary independence have pushed the metal to new record highs. This week, gold prices surpassed \$4,000 per troy ounce, a historic milestone, and continue to climb. [Investment banks expect the rally to extend further](#): Goldman Sachs forecasts \$4,900 per ounce by year-end, UBS targets \$4,200, and Bank of America sees \$5,000 by 2026.

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The surge reflects a perfect storm of global uncertainty. President Donald Trump's renewed tariff threats against China have revived safe-haven demand, while expectations of US interest rate cuts have made non-yielding assets like gold more attractive. As investors seek protection from policy volatility and dollar weakness, gold once again stands at the center of the world's financial anxiety and opportunity.

Historically, gold evolved as the universal "money commodity": durable, divisible, and trusted as a store of value and unit of account. As capitalism expanded and trade outgrew the physical supply of gold, fiat currencies emerged, with governments guaranteeing their value, first through the gold standard and later through the dollar-based system. After the US abandoned gold convertibility in the 1970s, gold ceased to function as money and became a financial asset. Yet its symbolic power never vanished: whenever confidence in fiat money erodes or the dollar weakens, investors return to gold as the ultimate refuge of value, a relic of the monetary past that continues to shape the present.

Since the 2008 financial crisis, central banks have steadily rebuilt their gold holdings, reversing decades of net sales as the metal regained its role as a safe, politically neutral store of value. Gold's resurgence began amid the pandemic panic, when it first broke through \$2,000 an ounce. The rally accelerated after Russia's invasion of Ukraine, since Russia's reserves were frozen in 2022, with central banks and Chinese investors driving a 27% gain in 2024.

## What's Driving Gold's Record Surge?

In 2025, gold has surged to new historic highs amid a confluence of global economic pressures: a weakening dollar, renewed tariff tensions, and rising doubts over U.S. monetary independence. Russia and China, in particular, have used gold to diversify away from U.S. assets, with Russia selling nearly all its Treasuries to fund purchases. In the latest leg of the rally, nearly every major macroeconomic force has worked in gold's favour, from the U.S. government shutdown to a weakening dollar, propelling the metal into yet another record-breaking phase.

Many call the trend the "debasement trade," a hedge against governments letting inflation run hot and eroding bond values. In the U.S., Trump's pressure on the Federal Reserve to cut rates and lower debt costs has amplified these fears. Appointing loyalist Stephen Miran to the Fed board and the legal battle over Governor Lisa Cook's position have further shaken confidence in the central bank's independence.

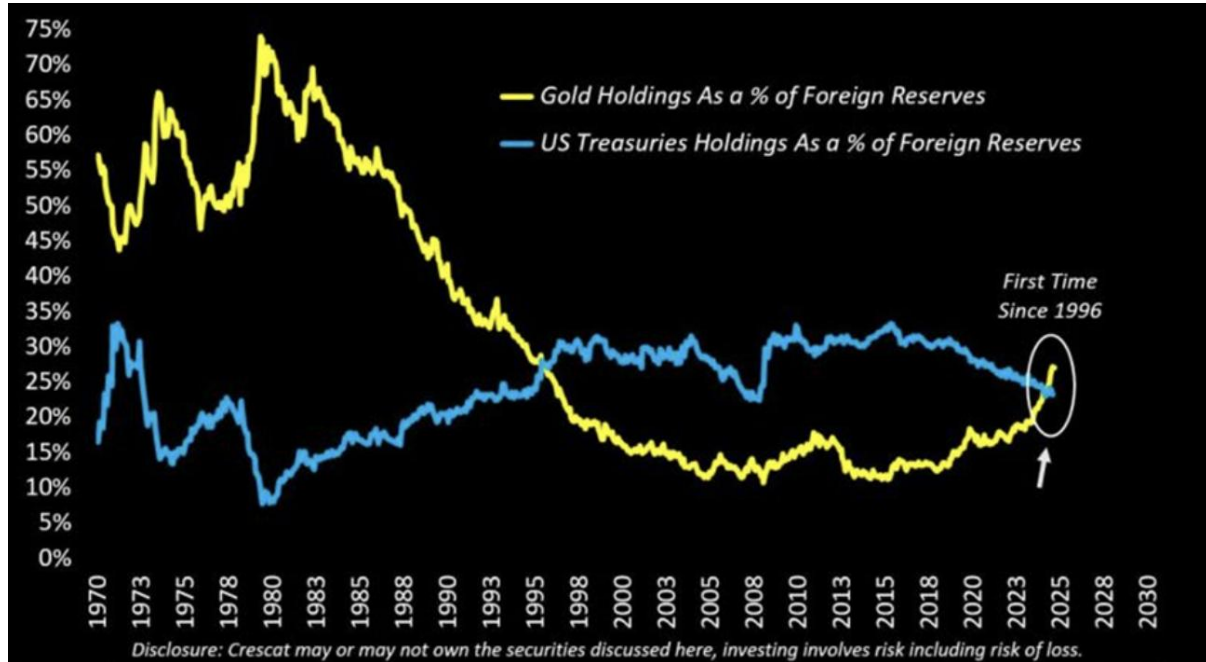
## Central Banks Lead the Charge

In the current environment, Central banks remain the driving force behind today's bull run, buying bullion in record volumes to diversify away from the dollar and protect reserves from geopolitical risk (**Figure 1**). Treasuries' share of global reserves has declined in recent years to about 23%, down from over 30% in the 2010s, now trailing gold's rising share of roughly 27%. Gold has also overtaken the euro as the second-largest asset in global reserves and, by value, even surpassed the amount of U.S. Treasuries held by non-U.S. central banks.

[Central banks now holding more than 36,000 tonnes worldwide, its value up 40% since the start of 2025 and prices reaching \\$3,703 per ounce in September \(Figure 2\)](#). The United States remains the largest holder, followed by Germany, Italy, France, Russia, and China, while Poland and China have led the latest wave of buying. This

renewed accumulation reflects both growing distrust in the U.S. dollar and the accelerating drive toward de-dollarisation.

**Figure 1: Foreign Central Banks Hold More Gold Than Treasuries**



Source: [Investing.com](https://www.investing.com)

**Trade Tensions and Policy Uncertainty**

Since returning to office, Trump’s tariff wars have reignited deep uncertainty over global trade and U.S. policy direction. Markets were unsure whether Washington wanted a strong dollar to stabilize import prices or a weaker one to boost exports. As the dollar fell more than 10% in the first six months of his presidency, gold’s appeal as a safe haven surged.

Emerging-market central banks, facing higher U.S. tariffs and reduced need for dollars in trade settlements, began expanding their gold reserves. For many in the Global South, gold became both a hedge against U.S. policy risk and a symbol of greater monetary independence. The latest escalation in Trump’s trade war with China reignited safe-haven demand, particularly from Chinese buyers returning after Golden Week.

**Expectations of Rate Cuts**

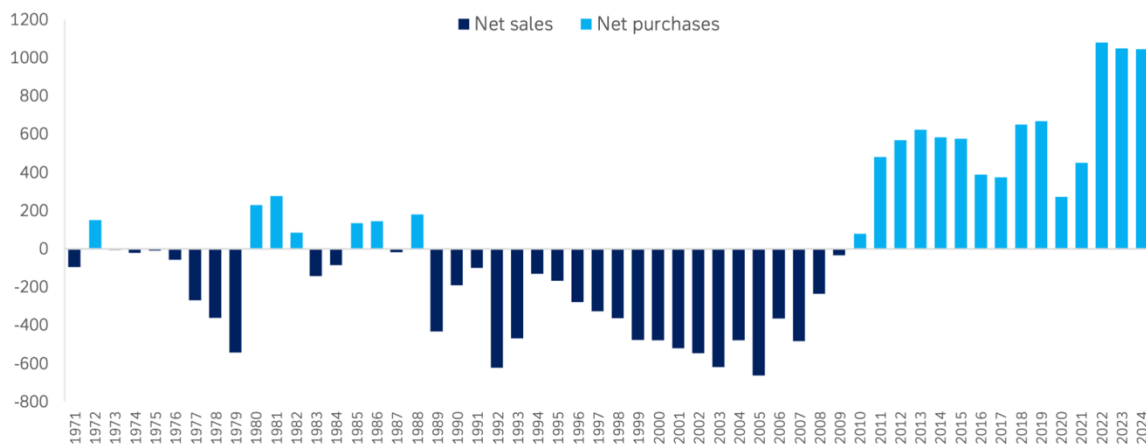
Another major catalyst has been mounting expectations of interest rate cuts, which reduce the appeal of government debt even as inflation risks persist. Investors now expect up to four quarter-point Fed cuts by the end of next year, despite inflation staying above target at **2.7% in August** and fiscal spending that continues to fuel growth.

[As analyzed in the previous publication](#), signs of fiscal dominance — central banks bending to government borrowing pressures — are growing. Still, markets aren’t fully pricing a loss of control. Long-term inflation expectations remain contained, suggesting the Fed hasn’t yet lost credibility.

**Global Factors Behind Gold’s Surge**

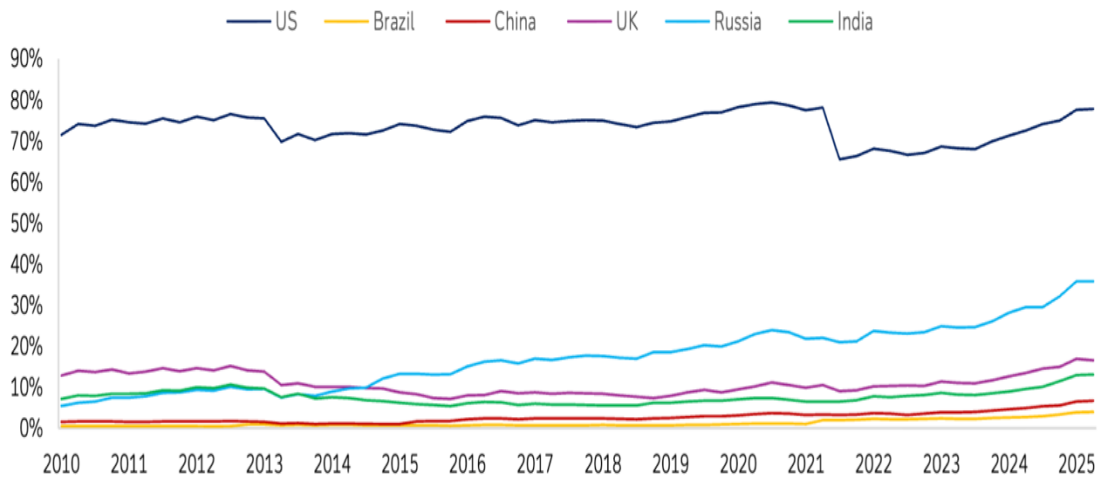
Gold’s surge above \$4,000 an ounce reflects growing skepticism toward central banks and the sustainability of government debt across major economies. Japan’s political shock played a key role in the recent gold rally. The surprise victory of Sanae Takaichi, who ran on aggressive deficit spending and tax cuts, unsettled markets and sent the yen, another safe-haven asset, to a 13-month low.

**Figure 2: Central Bank Gold Sales vs Purchases (Tonnes)**



Source: [Deutsche Bank](#)

**Figure 3: Percentage of Gold Holdings Relative to the Strategic Reserve**



Source: [Deutsche Bank](#)

**The Limits of the Rally**

*Speculative Momentum*

[Some veteran gold watchers warn that the current wave of FOMO-driven buying could push prices too far,](#) setting the stage for a sharper correction ahead. Once prices begin to rise sharply, investors rush in not because of fundamentals, but because they fear missing out. This self-reinforcing cycle has placed gold alongside bitcoin at the forefront of today’s boom, both have become symbols of “fictitious capital,” assets whose value depends more on collective belief than productive activity. The psychology of FOMO has taken hold, with markets driven as much by emotion as by economics.

*When the Cycle Breaks*

Gold’s extraordinary run may soon face its limits. If the U.S. dollar remains stable as it has since July, holding near its long-term average, or if the world economy slides into recession, the rally could lose momentum. A downturn would suppress inflation and strengthen the dollar, eroding gold’s appeal as an inflation hedge. Analysts note that gold could cool if U.S. debt projections improve or central banks begin trimming holdings after the metal’s sharp appreciation

Historically, gold's strongest rallies have emerged during periods of financial turmoil. Between 1970 and 1979, gold surged more than 600 percent while the S&P 500 fell 11 percent in real terms; during the 2008–09 crisis, gold gained 37 percent as equities plunged 23 percent. Today, however, there are few signs of such distress. Stock markets are climbing rather than collapsing, buoyed by optimism around artificial intelligence and resilient corporate earnings. Therefore, the gold's rally to endure, multiple forces would need to turn: artificial-intelligence optimism would have to fade, equity growth slow, investors retreat from Treasuries, and the Fed lose its grip on inflation.

### *Diverging Views*

[Skeptics such as Warren Buffett](#) remind investors that gold yields no income — “if you own one ounce for eternity, you’ll still own one ounce at the end.” Yet others, including [Ray Dalio and Ken Griffin](#), see it as the new safe-harbour asset, recommending portfolio weights once reserved for Treasuries. For now, gold's ascent reflects confidence not in crisis, but in the expectation that one may soon arrive.

### **Conclusion**

Since Russia's reserves were frozen in 2022, central banks have accelerated gold purchases to avoid assets vulnerable to seizure. The trend gained momentum under Trump's renewed trade war, pressure on the Fed, and expectations of rate cuts despite persistent inflation. Yet Trump is only one part of a broader story. [According to analyst Kyle Rodda](#), gold is now a “five-factor trade” driven by rising debt, geopolitical risks, trade tensions, concerns over Fed independence, and lower rate expectations. In advanced economies, debt ratios near 100% of GDP, slowing growth, and higher borrowing costs have created a “triple whammy” for fiscal sustainability, leaving markets to expect governments will “inflate away” their debt.

Gold's rise has coincided with a parallel surge in Bitcoin, as investors seek protection from inflation, policy risk, and a weakening dollar. October's market volatility underscored this shift toward assets outside the traditional financial system. While gold and crypto are both beneficiaries of this reallocation, their drivers differ, gold anchored in central-bank demand, bitcoin in speculative conviction.

The rally's sustainability hinges on whether current fears materialize into real instability. Persistent inflation, currency depreciation, or renewed geopolitical shocks could extend gold's appeal. Yet if growth stabilizes and central banks regain credibility, speculative excesses may unwind. For now, gold's ascent captures a deeper reality: in an era of fiscal fragility and political unpredictability, trust itself has become the scarcest asset.