Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: Daniel Lacalle

Gold prices rise as faith in government bonds evaporates

International central banks no longer trust fiat money. In the past, sovereign bonds were a reliable investment and a necessary component of national reserves.

However, global central banks are returning to gold as the safest and most dependable source of value following years of unsustainable debt growth and excessive deficit spending.

Global demand for gold surged once more in 2024, and central banks were mostly responsible for the spike in purchases, which hit a record high of 4,974.5 metric tonnes.

Gold purchases by central banks throughout the world continued to pick up speed, surpassing 1,000 metric tonnes for the third year in a row. Additionally, purchasing increased by 54% year over year to 333 tonnes in the last quarter of 2024.

According to the Global Gold Council, Poland's monetary authority was the biggest purchaser, buying 90 tonnes of gold by November 2024 with the goal of having gold make up about 20% of its holdings.

With 73 tonnes of gold purchases between January and November 2024, India rose to the second-largest position, bringing its total reserves to 876 tonnes.

In 2024, Turkey purchased 72 tonnes of gold, and its gold reserves accounted for 34% of its total foreign exchange reserves.

It's interesting to note that the People's Bank of China (PBoC) also increased its total to 2,264 tonnes in 2024 by almost 30 tonnes.

Poland's central bank appears to be attempting to defend itself against a more dovish European central bank and the potential effects of a broad euro devaluation that would influence Poland's own currency.

China, India and Turkey need to diversify their reserves and reduce their US Treasury holdings. These tactics point to growing inflationary concerns.

Investors are adding gold to their portfolios

At $105.8 trillion, the world's money supply is still growing. In 2025, it is anticipated to increase by 17%. As a result, higher government spending and looser monetary policy are driving up inflation expectations. Since central banks have suffered large latent losses in their bond holdings, keeping sovereign bonds is a relevant risk given the probability of ongoing inflation.

Demand for gold is not solely influenced by central banks. As a hedge against growing market volatility, underwhelming government bond performance, and high equity valuations, investors are adding gold and silver to their portfolios.

Many institutional funds have been long energy stocks and commodities and underweight gold and silver for years. Thus, gold, which becomes one of the few investments that offers uncorrelated returns in bumpy markets, is being used by several financial firms to balance their portfolios considering the recent market volatility.

> Central banks are expected to remain important drivers of demand for gold

The stabilisation of withdrawals from gold-backed ETFs and a move towards bars and coins were major factors in the 25% increase in institutional investor demand for gold, which reached a four-year high of 1,180 tonnes in 2025.

It is probable that this pattern will persist in 2025 and 2026. Central banks are expected to remain important drivers of demand for gold, with the World Gold Council (WGC) projecting that they may buy more than 1,000 tonnes in 2025.

A competitive market

A tight balance between supply and demand also supports the outlook for gold.

3,644 metric tonnes of mines were produced worldwide in 2024, and projections for 2025 indicate no appreciable increase. Recycling added 1,237 metric tonnes of gold to the world's supply in 2024 and is predicted to increase by 10% in 2025, yet there is a cap because there is only so much gold jewellery and scrap that can be recycled.

> Many central banks fear a flood of new bonds and do not view sovereign bonds as the reserve asset to purchase

This implies that there may be around 4,974 metric tonnes of gold available worldwide. However, the demand from central banks, investors, jewellery, technology, and industry would approach 5,000 metric tonnes, indicating a very competitive market once more.

The game has evolved. After years of excessive public expenditure and the maturity of the debt issued in the COVID year, many central banks fear a flood of new bonds and do not view sovereign bonds as the reserve asset to purchase.

Gold will remain a solid investment

The 137 sovereigns rated by S&P Global Ratings borrowed approximately $11.5 trillion in 2024. This was more than 50% higher than pre-pandemic levels and an 8% rise over 2023. We project a total of $12 trillion for 2025, which includes both new supply and refinancing requirements.

Giving investors a genuine positive return on their debt is something that no government wants to do. Financial repression is now a common practice rather than an exception.

Gold will remain a solid investment and a crucial safeguard against monetary repression - Daniel Lacalle

In addition, central banks must provide sovereign issuers with all the liquidity they require because they have given up on fighting inflation. Therefore, despite ongoing inflation, rate reduction and money supply expansion are likely, which is terrible news for sovereign debt.

Given the issuers' deteriorating solvency, government bonds are a riskier investment with low yields. Furthermore, when forced to choose, central banks will always put money printing ahead of managing inflation expectations and supporting public debt.

Current gold prices are far from representing the real monetary and fiscal issues affecting the world. However, gold does discount the constant devaluation of money's purchasing power.

As such, gold will remain a solid investment and a crucial safeguard against monetary repression while the world recognises that governments are unwilling to correct their imbalances and that central banks are powerless to manage inflation.