



By: Daniel Lacalle

The recent gold correction has changed nothing



Many Keynesian commentators have hailed the recent correction in **gold prices** as a fleeting victory. The same people who said that gold was worthless and had no reserve value at \$600 an ounce celebrate the correction from \$4,300 to \$4,000.

Funny, as gold has risen 55% in 2025 up to October 24th, a 20% annualised increase and a total rise of 150% since 2022.

The recent correction is logical amidst a bounce in the **US dollar index** to 99, its highest level since July, and a liquidity problem.

A liquidity problem, not a demand problem

My dear friend Danielle Martino Booth reminds us that the correction in gold is a symptom of a liquidity problem, not due to a loss of faith in gold or its demand. This is a clear symptom of severe liquidity stress in the financial system.

As margin calls rise and leveraged investors are forced to raise cash, they are also forced to sell the assets they've made money on.

This explanation is also logical when we look at the US dollar bounce, as many investors globally took aggressive leveraged bets against the US dollar and long-risk assets. Paying attention to a liquidity event is essential to identify the moment to buy more gold.

Gold remains an essential hedge against fiscal irresponsibility and currency debasement

If we look at the fundamental drivers, nothing has changed in terms of the demand from central banks or the relentless expansion of global money supply, both of which continue to support the long-term investment case for gold.

Despite short-term price fluctuations, structural forces remind us that gold remains

an essential hedge against fiscal irresponsibility and currency debasement.

A politically neutral reserve asset

Central banks are still actively moving away from sovereign debt, especially euro-denominated bonds. They are adding gold as a politically neutral reserve asset.

In 2025, central banks purchased over 1,000 metric tonnes of gold for the third consecutive year, bringing global official **reserves** above 36,000 tonnes.

This purchasing spree shows the evidence of the loss of confidence in developed nations' debt, with 95% of central banks planning further gold additions in the next twelve months.

The National Bank of Poland, the largest buyer year-to-date, continues to buy

For the first time in decades, gold holdings surpass US Treasuries and euro area bonds as the leading reserve asset of central banks.

Even with a short-term moderation in quarterly purchases, with 166 tonnes added in Q2 2025, central bank demand remains solid and structurally intact.

The National Bank of **Poland**, the largest buyer year-to-date, continues to buy, while Kazakhstan, Bulgaria, and El Salvador also contributed to August's net 19-tonne increase.

Persistent inflationary pressures that benefit gold

Central banks are buying gold because they don't trust their peers. Most policymakers have abandoned any real control over inflation and fiscal irresponsibility and continue to

prioritise state borrowing at negative real rates.

Thus, global money supply is expanding three times faster than output measured as GDP, driven by government debt and central banks' financial repression.

The global money supply growth continues to rise at a much faster pace than productive economic growth

With **global debt** reaching \$337.7 trillion, or 324% of global GDP in 2025, governments are betting on liquidity injections and low interest rates to avoid fiscal challenges, even when the outcome means currency debasement.

This monetary insanity drives persistent inflation, which is a form of de facto slow default that erodes real wages and savings.

The global money supply growth, particularly from major economies including France, China, the US, and Japan, continues to rise at a much faster pace than productive economic growth, while government spending maintains money velocity at an abnormal pace, thus creating persistent inflationary pressures that benefit gold.

Gold as a measure of fiscal insanity

Gold's recent rise is a direct response to government excess and central banks that enable it. Inflation is a deliberate policy to disguise fiscal imbalances, and central banks have abandoned their independence, essentially avoiding any limit to governments' inflationist policies and enabling excessive spending.



Even with the current correction, gold and Bitcoin work as the only real limits on government excess - Daniel Lacalle

Even with the current correction, gold and Bitcoin work as the only real limits on government excess, acting as independent money that cannot be devalued by political design.

Gold's recent correction is not significant compared with the structural trend of loss of confidence in fiat currencies, which remains unchanged.

Gold is not just an investment but a measure of fiscal insanity, and its long-term trend reflects the decisions of governments and policymakers who have abandoned sound money in an era of perennial crises.