Flash Economics

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Why is the price of gold increasing?

The price of gold has increased by more than 40% in one year (it currently stands at $3,386 per ounce) and by more than 90% over five years.

There are many explanations for how the price of gold is determined. In addition to the underlying drivers of demand and supply of gold (e.g. jewellery, industry, etc..) it can primarily depend on:

- the gold purchasing behavior of central banks;
- expectations regarding the U.S. dollar exchange rate;
- the available liquidity created by central banks;
- anticipated inflation, particularly in the United States;
- economic uncertainty.

In the recent period, the rise in the price of gold is likely due to:

- the declining share of the U.S. dollar in foreign exchange reserves, although the increase in gold reserves held by central banks has been continuous since 2008;
- the anticipated depreciation of the U.S. dollar;
- the rise in inflation expectations in the United States;
- uncertainty surrounding economic policies and geopolitical uncertainty.

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Sharp increase in the price of gold

The price of gold has risen very rapidly since the end of 2023 (Chart 1).

Chart 1
Gold price (USD per Troy Ounce)



We analyze the possible causes of the sharp rise in the price of gold; depending on the period, the following factors have been highlighted:

- gold purchases by central banks;
- expectations for the U.S. dollar exchange rate;
- liquidity created by central banks;
- anticipated inflation, particularly in the United States;
- economic uncertainty.

Various explanations for the rise in the price of gold

1. Central bank purchases

The diversification of central banks' foreign exchange reserves away from currencies, particularly the U.S. dollar (Chart 2), and toward gold holdings (Chart 3) has clearly played a role in the rise of the gold price since 2008. However, it cannot fully explain the recent surge in gold prices.

Chart 2
Currency shares in global foreign exchange reserves
(as %)

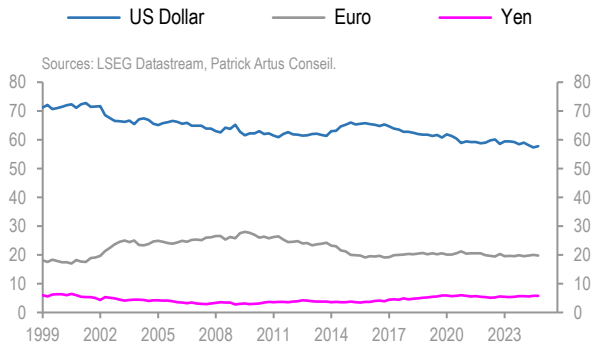
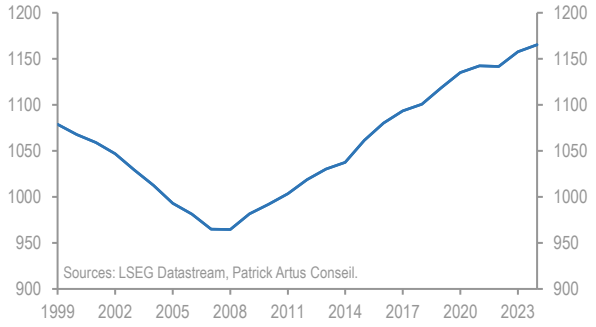


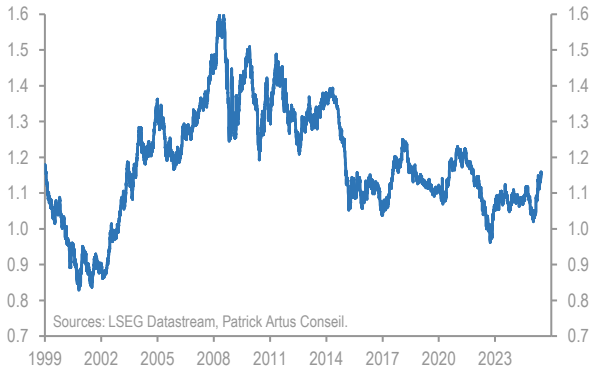
Chart 3
World: Central bank gold reserves
(in millions of fine troy ounces)



2. Anticipated depreciation of the dollar

The U.S. dollar depreciated significantly from 2001 to 2008, and a new depreciation has been observed since the beginning of 2025 (Chart 4).

Chart 4
Euro/dollar exchange rate (EUR 1 = USD...)



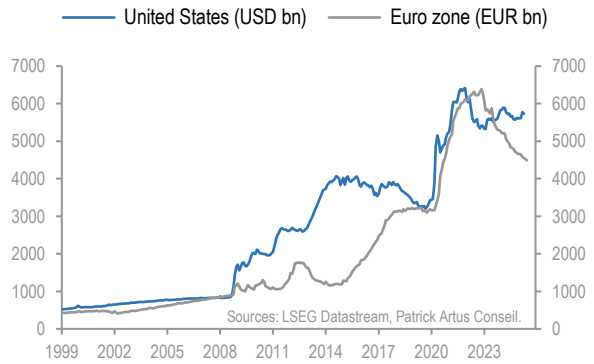
An anticipated depreciation of the U.S. dollar leads to a reduction in U.S. dollar-denominated reserves and an increase in gold holdings by central banks, as well as by private investors.

There is a clear correlation between the U.S. dollar exchange rate and the price of gold.

3. Abundant liquidity created by central banks

A portion of the liquidity (central bank money) **created by central banks** can be used to purchase gold. The monetary base (the amount of central bank money in circulation) grew rapidly (**Chart 5**) from 2008 to 2017 and from 2020 to 2022, but no longer does so today. The abundance of liquidity can explain the rise in the price of gold in 2020–2021, but not its recent increase.

Chart 5
Monetary base

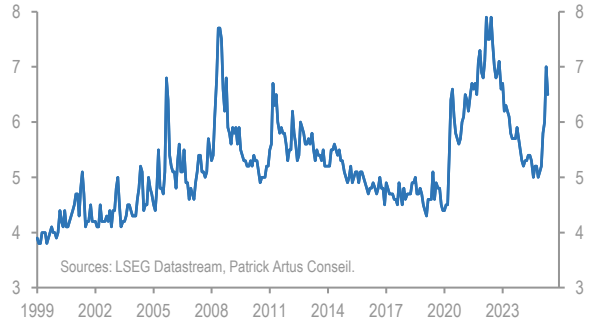


4. Anticipated inflation in the United States

Expectations of rising inflation, particularly in the United States, can lead to a decline in demand for assets, especially U.S. Treasury bonds, and an increase in demand for gold.

This trend is observed from 2020 to 2022 and again since the beginning of 2025 (**Chart 6**).

Chart 6
United States: Consumer's inflation expectations for the year ahead (as %, Conference Board)



Summary: What explains the rise in the price of gold since the end of 2023?

The above analysis shows that the increase in the price of gold since the end of 2023 can be attributed to:

- the depreciation of the U.S. dollar since the beginning of 2025;
- the rise in inflation expectations in the United States, also since early 2025;
- and, of course, economic uncertainty.

These drivers of the gold price increase are likely to persist due to the economic policies implemented by the Trump Administration.

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