

Reasons for Rising Gold Prices and Its Impact on the Global Economy

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Abstract—Gold prices have risen sharply in the last few years, and this trend is driven by a mix of economic stress, policy shifts, and global political uncertainty. A key part of the recent cycle is the return of large, headline-driven policy moves in global trade and geopolitics. Decisions associated with U.S. President Donald J. Trump and Chinese President Xi Jinping—especially around tariffs, trade negotiations, industrial strategy, and strategic competition—have contributed to uncertainty in supply chains, currency expectations, and investor sentiment. Alongside this, persistent inflation concerns, changing expectations about interest rates, record or near-record central bank purchases of gold, and recurring geopolitical shocks have increased demand for gold as a safety asset. This paper explains the major reasons behind rising gold prices and studies their impact on households, financial markets, trade balances, central bank reserves, and long-run global economic stability, using clear and practical language.

Index Terms—Gold prices, inflation, safe-haven assets, central banks, interest rates, trade policy, exchange rates, financial stability

I. INTRODUCTION

Gold is a unique asset because it acts like both a commodity and a financial reserve. People buy it as jewellery and also as a form of savings. Institutions buy it as an investment product. Central banks hold it as a reserve asset to strengthen trust in their balance sheets. Because gold does not depend on the profit of a company or the policies of one single country, it is often treated as a “neutral” store of value during uncertain times.

In recent years, global gold prices have increased in a way that attracted attention from households, investors, and policymakers. Many people ask a simple question: why is gold rising even when other markets are also moving? The answer is that gold is influenced by multiple forces at the same time. Some forces are short-term, like sudden political conflicts or stock market crashes. Others are long-term, like rising global debt or changing central bank reserve strategies.

This paper explains the important drivers behind rising gold prices and connects them to real economic impacts. Instead of focusing only on one factor (such as inflation), the paper

provides an overall view: monetary policy, real interest rates, currency movements, geopolitics, central bank demand, investment behaviour, and supply limitations. It also explains why gold price movements matter for the global economy, including trade, financial stability, and the behaviour of households.

II. BACKGROUND: HOW GOLD IS PRICED AND WHY IT REACTS

Gold pricing is often discussed as “demand and supply,” but the story is deeper. Most gold that exists is already above ground (as jewellery, bars, coins, and reserves). This means the price depends heavily on how willing holders are to sell and how strongly new buyers want to accumulate. Gold also has a special feature: it does not provide interest. So the decision to hold gold is strongly connected to the return available from alternative safe assets.

A. Opportunity Cost and Real Interest Rates

A key concept is the *opportunity cost* of holding gold. If inflation-adjusted returns on safe bonds are high, investors may prefer bonds because bonds pay interest. If inflation-adjusted returns are low or expected to fall, gold becomes more attractive even without interest. This is why gold often reacts to changes in expectations about central bank policy.

B. Exchange Rate Channel

Gold is internationally priced, largely in U.S. dollars. When the dollar weakens, gold can appear cheaper for buyers using other currencies, which can raise demand. When the dollar strengthens, gold can face pressure, although in extreme crisis periods both can rise because both are treated as “safe” in different ways.

C. Risk and Confidence Channel

Gold is widely viewed as a “confidence asset.” When people lose confidence in markets, in fiscal stability, or in geopolitical order, they may shift to gold. This is not because gold is always profitable, but because it is widely trusted to preserve value when the future feels unstable.

III. LITERATURE OVERVIEW AND MOTIVATION

Prior research and market reports frequently highlight three families of drivers: (1) monetary variables (real rates, inflation expectations), (2) currency and portfolio flows (USD strength, ETFs), and (3) uncertainty (geopolitics, recession fears). In recent years, a fourth driver has become stronger: central bank accumulation and diversification of reserves.

Reports from the World Gold Council document that central bank net purchases remained historically high through 2024–2025 and that investment demand can rise quickly through ETFs and bars/coins [1]. Research from major central banks notes that official-sector demand has become unusually important in the post-2022 environment and is connected to geopolitical conditions and reserve policy [2]. These sources support the idea that recent gold strength is not explained by only one traditional variable, but by a combination of rate expectations, policy uncertainty, and structural demand.

The motivation of this paper is to present these drivers in a clear structure and then connect them to economic outcomes that matter for families, businesses, and governments.

IV. REASONS FOR RISING GOLD PRICES

A. Inflation and Protection of Purchasing Power

Inflation reduces the value of money over time. When households notice that salaries do not rise as fast as daily prices, they often search for assets that historically hold value. Gold is one of the most common choices because it is widely accepted, easy to recognise, and has a long history as a store of wealth. Even when inflation starts to fall, gold can remain high if people fear inflation could return or if trust in policy is weak [3], [4].

B. Monetary Policy Expectations and Falling Real Yields

Gold often rises when markets expect interest rate cuts or easier policy in the future. This is because the expected return on safe bonds may decline, reducing the opportunity cost of holding gold. A strong gold market can appear even if current rates are high, as long as investors believe the peak is near and future real yields will fall [2], [3].

C. Currency Weakness and FX Volatility

Currency instability is another major reason for higher gold demand. When major currencies fluctuate sharply, it becomes harder for businesses to plan trade and for households to protect savings. Gold becomes a common hedge because it is internationally priced and not tied to one domestic policy system. FX volatility also raises risk premiums in markets, encouraging safe-haven behaviour [5].

D. Geopolitical Risk and Crisis Hedging

Gold reacts strongly to war risk, sanctions, and political conflicts because these events can disrupt trade routes, energy

supply, and capital flows. In these environments, people shift away from risky assets. Even if the physical supply of gold is not disrupted, the demand for insurance rises [3], [4].

E. Trade Policy Uncertainty and Leadership-Driven Shocks

Modern global markets are highly sensitive to trade policy. Tariffs, export restrictions, and strategic competition can change costs for entire industries. In the last decade, policy choices associated with U.S. President Donald J. Trump have included tariff-focused bargaining and aggressive trade negotiation styles that increase uncertainty for companies and investors [6]. At the same time, industrial policy and strategic competition under Chinese President Xi Jinping, including policies that affect technology and trade structure, have shaped global expectations and risk perception [7]. When global investors believe trade conflict may escalate, they often increase gold exposure because gold is viewed as insurance against sudden market breaks.

F. Central Bank Purchases and Reserve Diversification

Central banks hold reserves for stability and confidence. When central banks increase gold holdings, it can create strong demand that is less sensitive to short-term price changes. In recent years, central bank purchases were unusually large compared to earlier periods [1] [2]. This trend is often linked to risk management (diversification away from single-currency dependence) and geopolitical uncertainty.

G. Investment Products (ETFs) and Faster Demand Transmission

Gold ETFs and online platforms allow investors to buy gold exposure quickly without storing physical gold. This increases the speed at which demand can rise. When markets become fearful, ETFs can see inflows that raise prices. This “financial channel” can amplify moves that originally started with inflation or geopolitics.

H. Supply Constraints and Slow Adjustment

Mining supply cannot expand quickly. New gold projects require years of exploration, permits, and investment. Recycling (scrap supply) rises when prices increase, but recycling alone cannot match large new demand from central banks and ETFs. As a result, the market experiences demand-driven price increases during strong uncertainty cycles.

I. Behavioural Factors and “Safety Crowding”

Gold also rises because of human behaviour. When people see prices rising and hear repeated news about uncertainty, they may buy gold to avoid regret later. This is not always rational, but it is common. During such periods, demand can become crowded, pushing prices higher even faster.

V. GLOBAL GOLD DEMAND AND SUPPLY STRUCTURE

Gold demand is usually discussed under four headings: jewellery, investment, central banks, and industry. In stable growth periods, jewellery can be a large share. In uncertain periods, investment and official-sector demand often dominate. The supply side comes mainly from mining and recycling.

A useful way to understand recent price rises is to observe that investment and central bank flows can be large and quick, while supply responds slowly. This mismatch is one reason why gold rallies can look sudden and strong.

VI. IMPACT OF RISING GOLD PRICES ON THE GLOBAL ECONOMY

A. Impact on Households and Savings Behaviour

When gold prices rise, households often shift savings toward gold because it feels safer than other assets. This can protect wealth, but it can also reduce funds held in banks. If too much savings moves into non-productive assets, it can reduce credit availability for businesses and slow economic activity.



Fig. 1. Interconnected Factors Driving the Increase in Global

B. Impact on Trade Balance and External Accounts

High gold prices increase import bills for economies where gold demand is high. That can widen trade deficits and increase pressure on foreign exchange reserves. In periods of currency weakness, the import cost can rise further, creating a cycle where higher prices and weaker currency reinforce each other.

Fig. 2. Impact of Rising Gold Prices on Key Sectors of the Global Economy

C. Impact on Inflation Expectations and Consumer Spending

Gold itself is not a daily consumption item for most families, but its price can influence inflation psychology. When people see gold rising rapidly, they may interpret it as a sign that money is losing value. This can shape consumer expectations, wage demands, and pricing behaviour. In some cases, this can make inflation harder to control.

D. Impact on Financial Markets and Portfolio Allocation

Gold competes with equities and bonds in portfolios. During strong gold rallies, investors may reduce equity exposure, especially in high-volatility environments. This can tighten financial conditions. However, gold can also reduce portfolio risk, especially during crisis periods when stock markets fall.

E. Impact on Central Bank Balance Sheets and Reserve Strategy

When central banks hold more gold and prices rise, the value of their reserve assets increases. This can strengthen confidence. At the same time, large official purchases can also signal distrust in the future stability of major reserve currencies. If many central banks simultaneously diversify, it may slowly reshape the global reserve system.

F. Impact on Gold-Producing Economies and Industry

Higher gold prices can benefit gold-producing regions through higher export revenues, royalties, and investment in mining.

G. Impact on Jewellery, Retail, and Employment

When gold becomes expensive, jewellery demand often weakens because families delay purchases. This can reduce income in jewellery retail, small workshops, and related employment. At the same time, investment demand may rise, shifting business from ornament markets to investment products.



However, mining growth is limited by environmental rules, social concerns, and the long development period. So the benefit may be significant but not immediate.

VII. OVERALL PERSPECTIVE: WHY THIS CYCLE LOOKS DIFFERENT

Earlier gold cycles were often explained mainly by inflation or interest rates. The recent cycle is broader. The world has experienced repeated shocks: pandemic aftereffects, high debt

levels, conflicts, sanctions, and shifting trade blocs [3] ,[4]. In such an environment, investors are not only reacting to inflation. They are reacting to uncertainty about the global order and the stability of long-term economic rules.

Another difference is the strength of official-sector demand. When central banks buy gold heavily, it creates a steady source of demand that does not disappear quickly. This can keep prices elevated even when other variables change.

Finally, political leadership and communication can matter more than usual. Markets dislike surprises. When policies change suddenly—tariffs, restrictions, sanctions, and strategic actions—gold benefits because it is widely perceived as a safe and liquid asset.

VIII. POLICY AND PRACTICAL RECOMMENDATIONS

A. For Governments and Central Banks

- Focus on stable inflation management and credible communication to reduce fear-driven demand.
- Maintain transparency in reserve policy so markets do not overreact to uncertainty.
- Avoid sudden and unpredictable trade actions that increase risk premiums and destabilise expectations.

B. For Households and Small Investors

- Treat gold as a safety tool, not as the only investment.
- Diversify across multiple assets to reduce dependence on one price cycle.
- Understand that gold prices can fall if real yields rise and uncertainty reduces.

C. For Businesses

- Manage exposure through hedging when gold is used in manufacturing or retail.
- Plan inventories carefully because high volatility can distort costs and demand.

Fig. 3. Interconnected Factors Driving the Increase in Global Gold Prices

IX. CONCLUSION

Rising gold prices are caused by a combination of inflation concerns, real interest-rate expectations, currency volatility, geopolitical shocks, trade policy uncertainty, strong central bank buying, and limited supply adjustment. The recent gold cycle is especially influenced by the return of strong policy uncertainty in global trade and strategic competition, which has been shaped in part by leadership decisions associated with U.S. President Donald J. Trump and Chinese President Xi Jinping. The impact on the global economy is mixed: gold can protect savings and reduce portfolio risk, but high prices can raise import costs, weaken jewellery demand, and reduce funds available for productive investment. Understanding these drivers helps governments, investors, and households make better decisions during uncertain economic periods.

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