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GOLD PRICE HIT NEW RECORD: IS IT A HARNESS OF THE APOCALYPSE?

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Abstract. The article analyzes the growth in the price of gold due to the prevailing factors and circumstances in the global economy, widespread uncertainty and growing geopolitical tensions.

Keywords: increasing geopolitical tensions, global crisis, inflation, economic recession, monetary policy, gold price, de-dollarization.

A year ago we wrote, and this still looks no less relevant today, that at present, and this is no longer an incontrovertible fact, the entire world is covered by uncertainty, and the growth of geopolitical tensions everywhere leads to problems in the global economy and the state of society. And sometimes it seems to all of us that globalization and cooperation are not relevant [1].

And this is true, because the world has faced dramatic changes and shocks over the past few years that have greatly changed the life of society and the economy: Brexit in 2016, the trade wars between the US and China, the “black swan” in the form of COVID-19 in 2020 (in 2020, borders around the world closed, people and economies were isolated from each other: citizens were even forbidden to leave their homes, and chains were broken in the economy, the service and entertainment sectors suffered greatly).

And due to geopolitical confrontation, starting in 2022, military conflicts in the world have intensified and the economic isolation of countries has increased [2].

All these events have changed the usual course of things and will have long-term consequences. And if during the COVID-19 pandemic the isolation of economies was a forced measure, then in 2022 deglobalization is already political in nature and will have a long-term effect. Sanctions due to the military operation in Ukraine have divided Russia from Europe and the United States: logistics routes have been destroyed, long-standing agreements and contracts have been terminated.

Relations between the United States and China are not even thinking of improving.

The Arab-Israeli conflict and the Iranian-Israeli standoff are not separate and distinct at the present time.

And the inability of the world's largest economies to agree on all these contradictions also has its price: the growth of inflation, which is only increasing due to the closure of borders and the disruption of the balance of supply and demand, and due to the strengthening of monetary policy, and therefore the deterioration of lending and business conditions, is pushing the world economy into recession [3].

And against this backdrop, the price of gold has repeatedly updated its maximums. Thus, if the price of gold futures with settlement in June 2023 on the New York COMEX exchange on April 13, 2023, rose to $2,063 per troy ounce for the first time since March 2022 (the quotes for the precious metal were then approaching the historical record, which was set in August 2020 at $2,075 per ounce). And already from mid-February 2024, the price of gold stormed new heights: at one point, the metal exceeded its value of $2400 per ounce [4].

And on 04/21/2025, the June gold futures (in London) showed a new historical high - $3509.90 per troy ounce (See Fig. 1).

Figure 1. – Gold Futures Chart April-May 2025, in US Dollars [5].

So what is it that is supporting the further growth of precious metal prices today, in addition to the factors noted at the beginning of the article?

And so, before the geopolitical events of 2022, the price of gold over the past 90 years depended primarily on the volume of transactions between the Western and Eastern markets. Western countries determined supply and demand, and Eastern countries acted as counterparties to the transaction. And according to the World Gold Council, with an increase in the volume of physical gold purchases by the largest centers, in particular Great Britain or Switzerland, its price began to rise, and vice versa. As a result, gold moved from West to East and back, synchronizing with the price: sometimes falling, sometimes rising.

The second factor that has historically and very seriously affected the price is the relationship between the price of gold and the real yield on US government bonds. When the real yield fell, the attractiveness of bonds was lost, which ensured the transition of investors to gold. But if the trend changed and the real yield began to grow, then investors returned to bonds.

However, since the end of 2022, both patterns have failed. For example, according to Bloomberg, in August 2023, the yield on Treasury bonds rose to a 15-year high (since the 2008 crisis). Thus, the yield on ten-year US bonds rose to 4.33%, i.e. almost eight basis points higher than the 2022 highs. This should have significantly affected the price of gold downwards. But not only did it not decline, but it rose from November 2022 to August 2023 by 16%, from $1,643 to $1,954 per ounce.

It is also necessary to note here that in addition to the correlation of real profitability with the price of gold, the relationship between the volume of transactions with gold and its price has also ceased to work. Starting from the third quarter of 2022, both Great Britain and Switzerland are gold exporters, i.e. sellers.

According to the historically established paradigm, this should also have become a reason for the decline in the cost of gold. However, as we see, this is not happening. Thus, the West has ceased to significantly influence the pricing of the precious metal.

Still, let's determine what influences the significant change in gold pricing today and try to note the factors of its growth.

1. Geopolitical conflicts escalation.

Due to the geopolitical events of 2022, dollar assets have become more risky. Therefore, the central banks of the countries of the global South, the Middle East and Turkey have become increasingly concerned about owning a neutral asset without additional risk. Thus, since the end of 2022, they have begun to actively pursue a policy of forming gold and foreign exchange reserves and secretly purchasing gold in Switzerland. This was done in order not to create a stir around gold after the US freezes Russia's reserves, since otherwise the price of gold will rise significantly. And now this is also happening because at the moment literally the entire world is covered by uncertainty, and the growth of geopolitical tensions everywhere leads to problems in the global economy and the state of society.

And according to the World Gold Council (WGC) report, in 2022, Central Banks purchased 1,136 tons of gold, which is the highest in the last 55 years.

And according to the June 2024 report of the European Central Bank, gold has overtaken the euro, becoming the second most popular asset in the international reserves of world central banks. In 2024, it accounted for 20% of reserves, the euro - 16%, and dollars - 46% [6].

Moreover, in Q1 2025, central banks purchased another 244 tons of gold, with Germany holding the lead in reserves (3.35 thousand tons of gold or 77.18% of its total international reserves).

It is followed by Italy, France, China and India. Russia is in 88th place in the WGC rating. Among the factors influencing reserve management decisions, WGC respondents named interest rate levels, inflation concerns and geopolitical instability.

As Bloomberg writes, global central banks consider gold to be the safest reserve asset, which is not tied to the policies of individual states and is protected from crises and sanctions. Moreover, gold has become especially relevant in the context of growing geopolitical risks and loss of confidence in the dollar.

2. Inflation.

In 2022, global inflation reached its highest levels in decades. And although the International Monetary Fund (IMF) forecasts that it should decline from its peak of 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024, we still believe that sustained price growth will persist for an even longer period of time [6].

One of the main factors that points to this is the US government deficit. Due to large social programs before the elections, investments in green energy, construction and maintenance of dilapidated infrastructure, defense spending and assistance to its partners around the world, the US needs to continue to increase its budget expenditures. And historically and repeatedly, it has been observed that excessive deficit budgets lead to inflationary consequences. In such a scenario, commodities become an attractive asset class.

And, despite the fact that gold is not directly a pure hedge against inflation, we can clearly note for ourselves that this metal will continue to reduce risks in the event of various global turbulences and volatility.

Because of all this, there is also high demand for the precious metal from investors. Thus, in Q1 2025, investments in gold ETFs reached 552 tons, which was the maximum increase in the indicator over the past three years. And at the same time, according to WGC data, the inflow of gold into global ETFs increased in April by $11.2 billion, or 115.3 tons [7].

3. The phenomenal growth of the US national debt.

Let's not forget about the growing US national debt (See Figure 2, top left).

In fact, this is the phenomenal growth of the national debt, which has long had and will have a serious impact on many economic processes around the world. It is obvious that the US national debt has already grown to such a size today that the problem needs to be solved somehow, but no one knows how to do this at the moment. Of course for some time the process may remain frozen but for how long, no one is willing to say now.

Figure 2. – US Government Debt Indicators [8]

And as we can see, the figure (as of the beginning of April 2025) is really very large, moreover, it is simply unaffordable, because each US taxpayer already has more than $280 thousand, and servicing such a debt in most cases is simply not possible.

4. Global economic outlook and possible recession in the US.

As we noted above, today we should not forget about the future outlook for the global economy and a possible recession in the United States, the likelihood of which cannot yet be written off.

Since the pandemic, the negative correlation between stocks and bonds has also been broken, different asset classes have ceased to serve as a hedge for the portfolio, while gold, on the contrary, can be used as a diversifier. At the moment, the share of investors in gold for hedging purposes is still insignificant. Therefore, if the recession scenario is realized, central banks of the global South will continue to form gold and foreign exchange reserves. And if geopolitical conflicts continue to escalate, the potential for gold price growth may be more significant.

5. Underinvestment in the industry.

Fundamental factors that also give us positive signals about the growth of gold prices include underinvestment in the industry, similar to the oil sector. Moreover, mining companies are more conservative in their financial policies and prefer, like oil companies, to distribute their cash flows in the form of dividends to investors. This may also indicate that funds are not currently being spent on new geological exploration and to increase existing capacities, and, accordingly, this will not allow a sharp increase in existing production volumes.

It is also worth considering the ESG agenda: it pushes mining companies to focus on the extraction of not precious metals, but those metals that are involved and used in the green economy.

Thus, from the above material we see that interest in gold has reached levels not seen since the mid-20th century.

The world's official reserves are approaching their record high of 1965, when gold still played a key role in the Bretton Woods system. The comparison with this year highlights the scale of the changes taking place, as we look at a possible shift away from fiat currency dominance towards a more balanced multi-currency and commodity reserve system.

As we noted above, the standard market correlations that have been forming for all this long time are broken. And contrary to the belief that with the growth of real profitability the price of gold should decrease, this has not happened yet due to the policy of central banks on the formation of foreign exchange reserves. And if we assume that this trend will continue, and we will move towards the historical average value of 40% of gold in reserves (against the background of further geopolitical upheavals and problems in the economy), then this means that at least another $3.0 - $3.5 trillion may additionally flow into this asset.

Thus, the growth of quotations in the near future may amount to at least another 25%, which will correspond to a record level of more than $3900-4100 per troy ounce.

Foreign experts are also quite optimistic. According to analysts at Goldman Sachs, the growth in demand for gold will continue, which could push the price to $3,700 per ounce by the end of 2025.

At the same time, JPMorgan experts allow gold to reach $6,000 per troy ounce by 2029 if the current trend continues [9].

In the meantime, it just wants to say, as we said literally a year ago: “fasten your seat belts, this will be an unforgettable adventure - none of us, except perhaps the very oldest, have ever experienced anything like this”.

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