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Achintya Securities Private Limited

Why is **Gold Booming** in a World Full of Risk?

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Why Is Gold Booming in a World Full of Risk?

Gold is making headlines internationally after crossing $3,000 per ounce, while in India, it has surged past ₹90,000 per 10 grams.

But why? In theory, gold prices are influenced by factors such as interest rates, inflation, economic uncertainty, geopolitical tensions, central bank reserves, stock market volatility, supply & demand, and fund flows.

However, it's important to take a realistic look at current global developments to understand what's truly driving this rally.

De-dollarization: Can Gold Be a Replacement?

As global concerns grow over the dominance of the U.S. dollar in international trade and finance, the conversation around de-dollarization has gained momentum.

With rising geopolitical tensions, increasing sanctions risk, and a shifting global power dynamic, several countries are actively seeking alternatives to reduce their dependence on the dollar.

However, replacing the dollar is not an easy task.

While currencies like the Chinese yuan, Russian ruble, and Indian rupee have been floated as potential substitutes, Russia and China face credibility challenges due to authoritarian regimes and a lack of transparency—particularly in China's case.

India, on the other hand, presents a different issue: the Indian rupee lacks global appeal because India is not a major exporting nation, leaving other countries with limited use for the currency.R

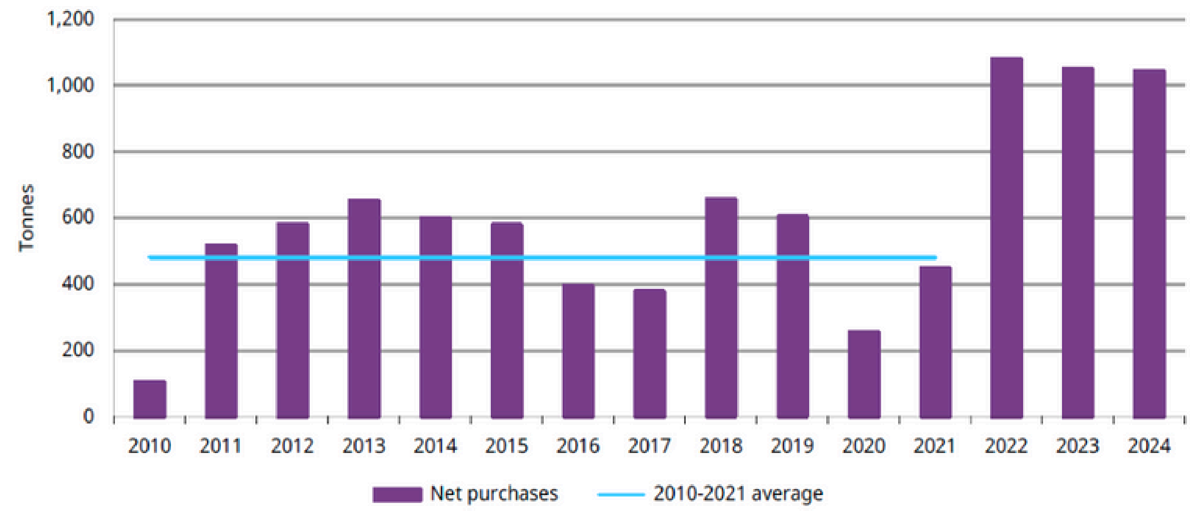
As the chart below shows, central banks around the world are significantly increasing their gold reserves.

The year 2024 marked the 15th consecutive year of net gold purchases by central banks, with the trend accelerating post-COVID.

Over the past three years, net purchases have consistently exceeded 1,000 tonnes annually.

Chart 9: Central banks have been net buyers for 15 consecutive years

Annual central bank net purchases, tonnes*



*Data to 31 December 2024.
Source: Metals Focus, Refinitiv GFMS, World Gold Council

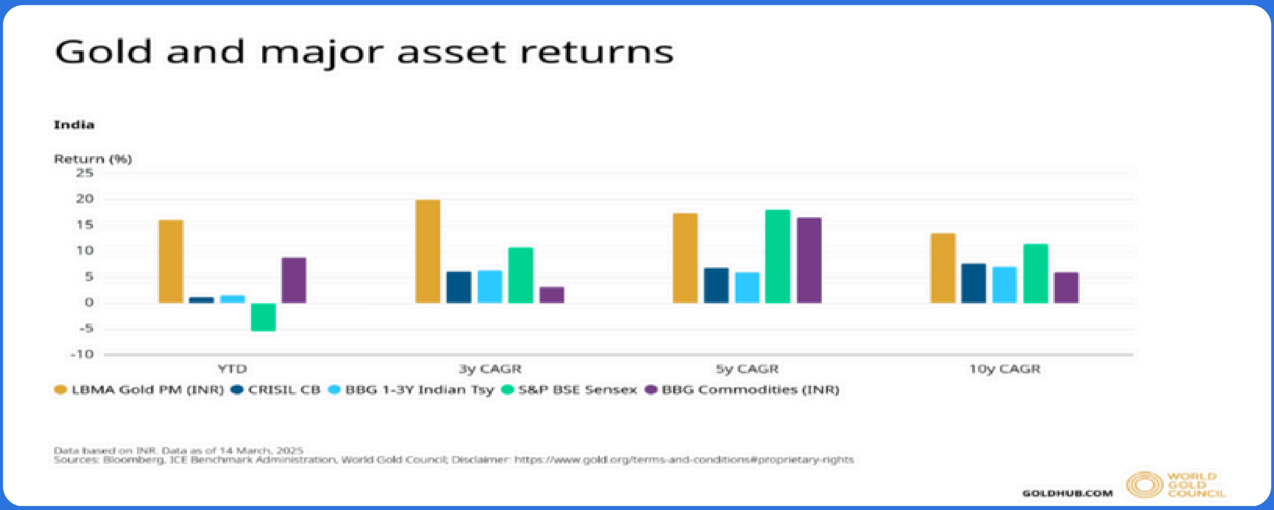
Economic Uncertainty

Gold prices are on the rise as global uncertainty deepens. Fears of a recession persist, with high inflation and economic slowdown. Meanwhile, the ongoing wars in Ukraine and Gaza are further disrupting global trade and driving up oil and food prices. These geopolitical tensions are unsettling investors, prompting a shift toward gold, widely viewed as a safe-haven asset during turbulent times.

Adding to the uncertainty, Donald Trump's proposal to reintroduce high tariffs is sparking concerns about a potential new trade war, which could further strain the global economy. In such conditions, gold typically performs well, as it is trusted to retain value when other assets falter. As a result, demand for gold is climbing—along with its price.

As shown in the chart below, gold has exhibited a strong, one-sided rally since November 2022.

Gold as an Asset Class



The chart highlights how gold has outperformed many major asset classes in India across different time horizons. Year-to-date (YTD), gold (LBMA Gold PM in INR) has delivered the highest return, significantly outperforming equities (S&P BSE Sensex), fixed income (CRISIL CB, BBG 1–3Y Indian Treasury), and other commodities (BBG Commodities INR).

Over the 3-year and 5-year compound annual growth rate (CAGR) periods, gold continues to show strong performance, rivaling or exceeding returns from the equity market and broader commodities.

Even over a 10-year CAGR, gold maintains competitive returns, proving its long-term value as a stable and profitable asset in a diversified portfolio—especially during times of economic and geopolitical uncertainty.

Gold Demand: Central Banks & ETFs

Gold demand is rising sharply, both globally and in India, as investors and central banks seek safety amid ongoing economic and geopolitical uncertainty. As the chart shows, countries like China, Russia, and India have steadily increased their gold reserves over the past two decades, reflecting a global shift toward de-dollarization and diversification. While the U.S. still holds the world's largest gold reserves, the growing stockpiles in emerging economies signal gold's importance as a strategic asset.

This trend is also evident in investment flows. Globally, gold ETFs saw a massive inflow of $12.5 billion in 2025, compared to $3.4 billion in 2024—with $9.43 billion coming in February alone. India contributed $220 million to this, around 2.33% of the global total.

Domestically, gold ETFs have seen explosive growth within the mutual fund industry. As shown in the table below, between January 2020 and February 2025, total mutual fund AUM in India grew 2.43 times, while passive funds rose 5.56 times. In contrast, gold ETFs surged 9.65 times—from ₹5,768 crore to ₹55,677 crore—highlighting a strong investor shift toward gold as a reliable hedge and long-term store of value.

Future Prospects:
Why Should Investors Care?

Looking ahead, gold's prospects remain strong amid persistent global volatility. With economic slowdowns, rising debt levels, and geopolitical tensions showing no signs of easing, gold is likely to stay in demand as a safe-haven asset. The continued accumulation of gold by central banks and the surge in ETF inflows underscore its growing strategic relevance.

For investors, gold offers a hedge against inflation, currency risk, and market turbulence—while also delivering consistent long-term returns. As traditional assets face uncertainty, having gold in a portfolio isn't just smart—it's essential.

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