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Nitesh is Head of Commodities & Macroeconomic Research, Europe at WisdomTree. Prior to the acquisition of ETF Securities in April 2018, Nitesh was a Commodities Strategist for the company. Nitesh has 20 years of experience as an economist and strategist, covering a wide range of markets and asset classes.

At WisdomTree he has been leading the research efforts in the commodity space, developing accessible publications targeted to a wide audience. His gold model and outlooks are widely anticipated by clients.

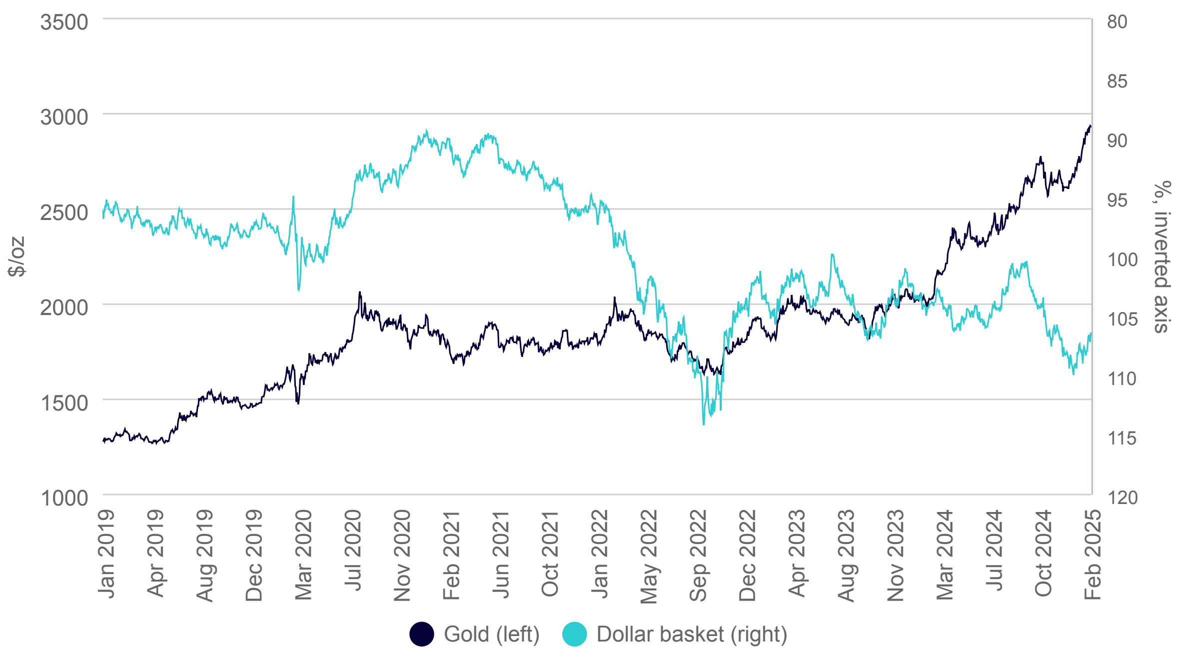
New year, new high for gold

The first month of the Chinese Year of the Snake has proven positive for gold, with the yellow metal rising to a new high of $2,936.85/oz on 19 February 2025 (LBMA[1] PM price). As other major assets, such as US equities, navigate uncertain terrain, gold thrives as a safe-haven asset.

Bond and dollar headwinds ease

The US dollar basket has depreciated from a high of 110.0 on 13 January to 106.6 on 21 February, providing gold some breathing room after a relentless dollar rally since October 2024 (Figure 1).

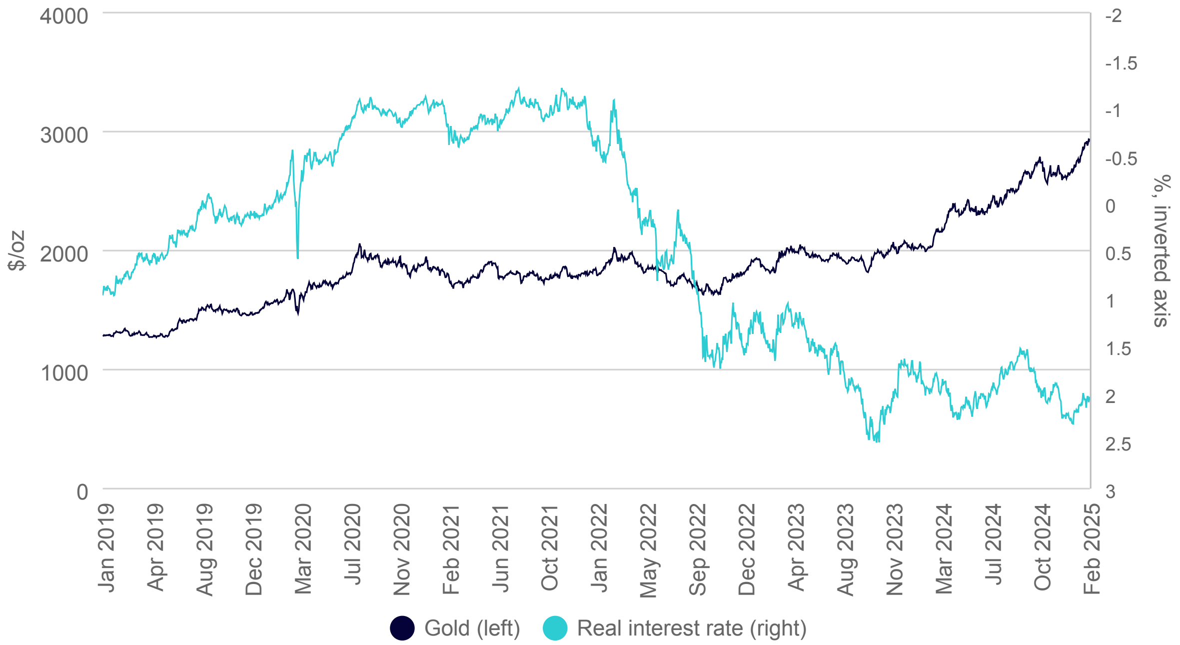
Figure 1: Gold and US dollar basket



Source: WisdomTree, Bloomberg. January 2019 to February 2025. Daily data. ***Historical performance is not an indication of future performance and any investments may go down in value.***

US Treasury Inflation-Protected 10-year bond yields also declined from 2.32% on 14 February to 2.00% on 21 February (Figure 2), another positive development for gold.

Figure 2: Gold and US Treasury Inflation Protected Securities



Source: WisdomTree, Bloomberg. January 2019 to February 2025. Daily data. ***Historical performance is not an indication of future performance and any investments may go down in value.***

The easing of dollar and bond headwinds has been helpful, but that alone does not explain gold's strong rally.

Gold as the haven asset of choice

Markets remain unsettled by President Trump's aggressive tariff policies. His unpredictable approach has heightened investor concerns. For example, the 25% tariff on Canada and Mexico, initially announced with immediate effect on 01 February 2025, was delayed for just one month on 03 February. As the deadline approaches, uncertainty looms, particularly given the lack of progress on fentanyl controls and ongoing threats of retaliatory tariffs from Canada and Mexico. Such tariffs could have significant inflationary effects, given the interdependency of oil, gas, and mineral trades between the US and its neighbours.

Investors are increasingly turning to gold as a hedge against the risks posed by escalating trade tensions.

Additionally, geopolitical risks have intensified. President Trump and Ukrainian President Zelensky have engaged in a public dispute after Trump initiated talks with Russia about ending the conflict without including Ukraine. Trump has even referred to Zelensky as a "dictator," referencing the suspension of elections due to wartime conditions. The US's push for access to Ukraine's vast mineral resources (including lithium, titanium, uranium, gas, and oil), coupled with its shifting military commitments, is unsettling investors and further driving demand for gold.

Inflation: higher for longer?

The implementation of tariffs is expected to be inflationary, raising final prices for both consumers and intermediate producers. Even the threat of tariffs has contributed to inflationary pressures. A CreditCards.com survey[2] found that one in five Americans is purchasing more than usual, with many citing concerns over impending tariffs. Additionally, one in four Americans has made large purchases since November in anticipation of higher prices.

January's US core CPI[3] inflation came in at 3.3%, exceeding the consensus estimate of 3.1%, signalling that panic buying may already be influencing prices.

Gold, a well-established hedge against inflation, is rallying as fears of resurging inflation grow.

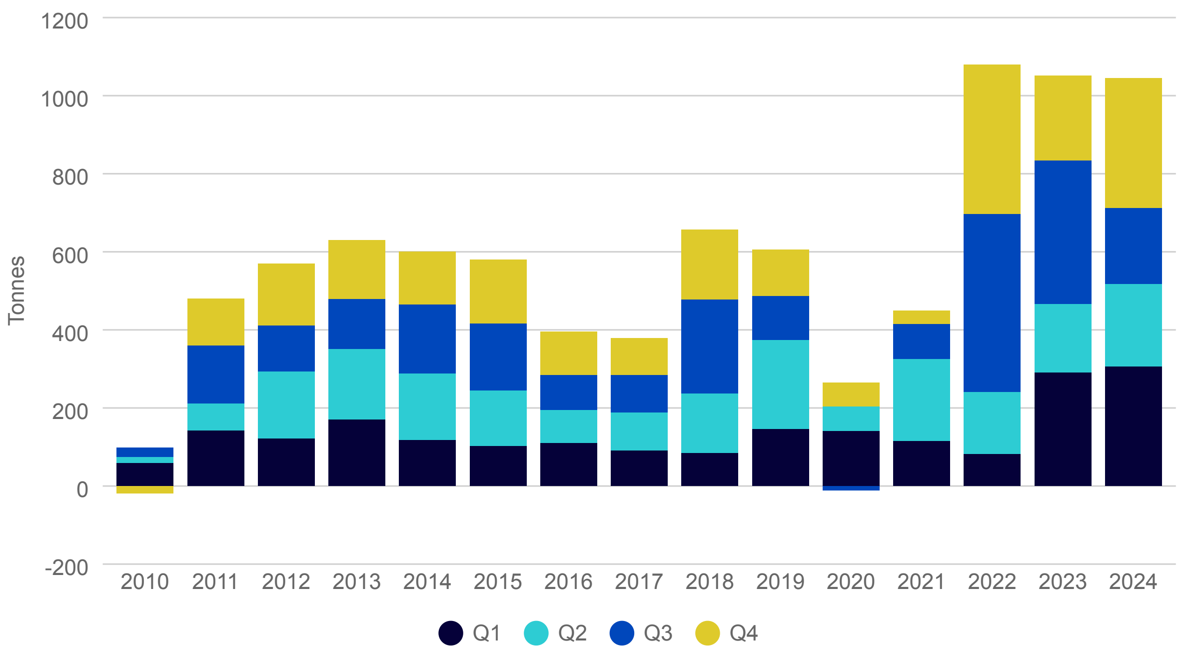
Central bank demand for gold remains stellar

Central banks continued to buy gold at a rapid pace in 2024, marking the third consecutive year of over 1,000 tonnes in purchases, according to World Gold Council data released in February 2025 (Figure 3). This is more than double the prior 10-year average. The freezing of G7[4] assets in response to the Russia-Ukraine war has prompted central banks to diversify away from G7 currencies, making gold an attractive alternative.

Final 2024 figures were slightly surprising, as IMF[5] International Financial Statistics data had suggested a slowdown in purchases in the latter half of the year. However, official data revealed an acceleration instead.

- National Bank of Poland (NBP): the largest buyer, adding 90 tonnes to its reserves. NBP President Adam Glapiński has expressed a strong preference for gold and aims to increase its share in total reserves to 20%.
- Central Bank of Turkey (CBRT): the second-largest buyer, accumulating 75 tonnes in 2024. Unlike in 2023, CBRT did not sell any gold in 2024.
- Reserve Bank of India (RBI): purchased gold every month until December, quadrupling its 2023 purchases.
- People's Bank of China (PBOC): although China's pace of gold buying slowed after May 2024, purchases resumed in November, December, and January 2025.

Figure 3: Central bank demand for gold



Source: WisdomTree, World Gold Council, Q1 2010 to Q4 2024. Daily data. ***Historical performance is not an indication of future performance and any investments may go down in value.***

China's ETP buying slows

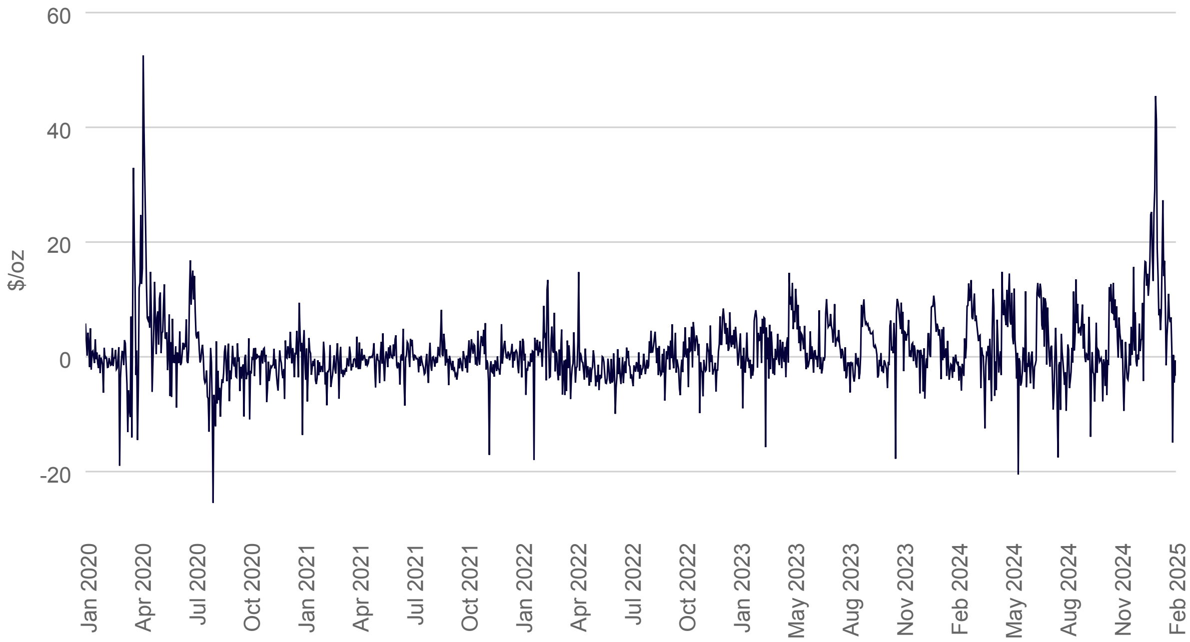
Chinese exchange-traded product (ETP) demand, which saw record inflows in 2024 despite global outflows, has shown signs of slowing. According to World Gold Council data, January 2025 saw an outflow of 4.7 tonnes from Chinese ETPs, likely due to profit-taking ahead of Chinese New Year celebrations. While higher prices have softened jewellery demand, bar and coin purchases remain robust.

Gold Exchange For Physical (EFP) has eased

Last month, we reported that the spread between spot and front-month futures prices—a proxy for the Exchange for Physical (EFP)—had widened to levels not seen since the COVID-19 crisis. This was driven by uncertainty regarding US tariffs on bullion. US gold prices had been trading at a premium due to the risk of tariffs.

However, as of 21 February 2025, the EFP spread has narrowed significantly and is now negative (Figure 4). Although no explicit exemptions for gold have been announced, the market seems more confident that logic will prevail, leading to a carve-out for gold.

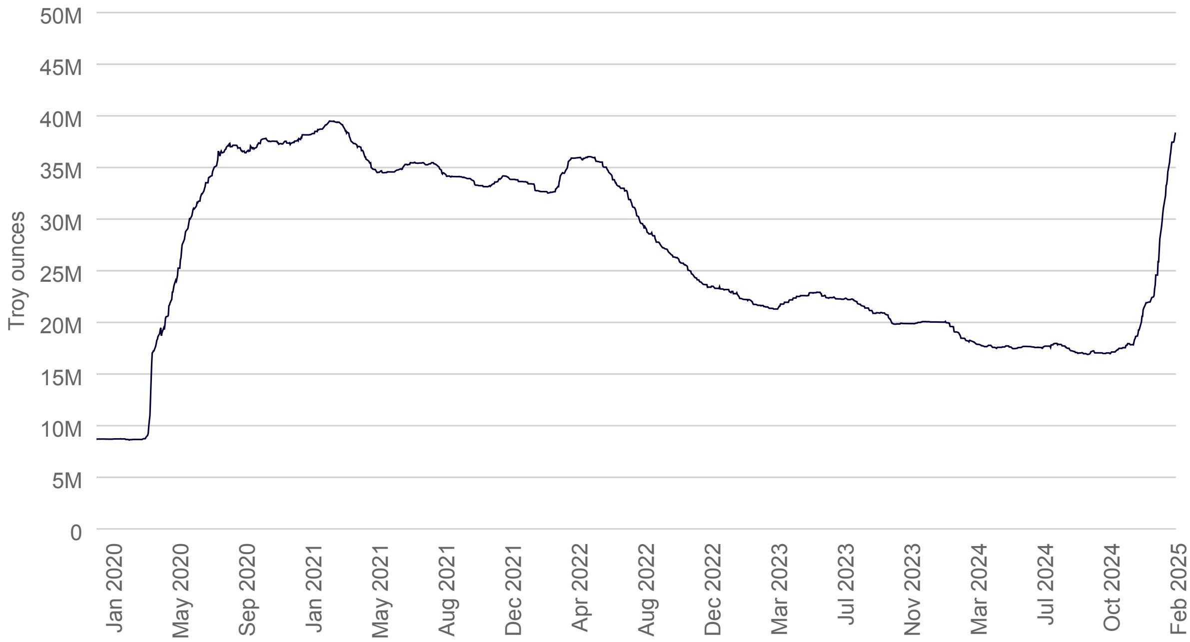
Figure 4: Front month gold futures less spot price



Source: WisdomTree, Bloomberg. January 2020 to February 2025. Daily data. ***Historical performance is not an indication of future performance and any investments may go down in value.***

Additionally, the increase in COMEX[6] inventory (Figure 5) has reassured the market that ample gold is available in New York vaults.

Figure 5: COMEX gold inventory



Source: WisdomTree, Bloomberg. January 2020 to February 2025. Daily data. ***Historical performance is not an indication of future performance and any investments may go down in value.***

Nevertheless, this remains an area to watch. If universal tariffs are implemented with no exemptions, we could see a renewed divergence between London and New York gold prices. Furthermore, much of the recent gold influx into New York is in 400oz bars, which would require refining into 100oz bars to meet COMEX delivery standards.

[1] LBMA = London Bullion Market Association.

[2] https://www.creditcards.com/statistics/1-in-5-americans-are-doom-spending/

[3] Consumer Price Index.

[4] The Group of Seven (G7) is an intergovernmental political and economic forum consisting of the United States, the United Kingdom, Canada, France, Germany, Italy and Japan. NB the European Union is a non-enumerated member.

[5] IMF = International Monetary Fund.

[6] COMEX = Commodity Exchange; it is the primary market for trading futures and options for metals like gold, silver, copper, and aluminium.

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