

Analysis of the Reasons and Future Trends for the Rise of International Gold

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Abstract: Gold has long been regarded as a traditional safe haven asset, especially during economic uncertainty and geopolitical unrest. This study examines the complex interplay between traditional supply-demand dynamics, macroeconomic conditions, monetary policies, and market sentiment. Factors such as limited gold mine production and rising production costs, while central banks have increasingly turned to gold as a reserve asset, has driven prices upward even further. Additionally, geopolitical risks, inflation expectations, and Fluctuations in the US dollar, often inversely correlated with gold prices, have added to market volatility. The widespread use of financial instruments like gold ETFs and futures has also contributed to price fluctuations. As the global economy recovers, adjustments in monetary policy and ongoing geopolitical tensions will play a critical role in shaping the future direction of gold prices. This analysis offers valuable insights for investors and policymakers while suggesting future research scope to further understand the gold market's complexities.

Keywords: Gold Prices, Geopolitical risks, Monetary policy, Inflation.

1. Introduction

In recent years, the fluctuation of international gold prices has attracted widespread attention, especially in the context of increasing global economic uncertainty, and the performance of gold as a safe haven asset has attracted much attention. The reasons for the rise in gold prices are complex, including changes in traditional supply and demand relationships, as well as multiple factors such as macroeconomic environment, monetary policy, and market sentiment. From a supply side perspective, limited gold mine production, rising production costs, and global central bank purchasing behavior at support prices; The demand side is driven by sectors such as jewelry consumption, industrial use, and investment demand in financial markets. Geopolitical risks, inflation expectations, and changes in the US dollar exchange rate have further exacerbated the volatility of gold prices, especially as investors' demand for gold continues to rise amid global interest rate declines and monetary easing policies. At the same time, the widespread use of financial instruments such as gold ETFs and futures contracts has also amplified market volatility. In the future, with the global economic recovery, monetary policy adjustments, and geopolitical changes, the trend of gold prices will depend on the dynamic balance of multiple factors. This article will analyze these influencing factors in depth and provide a prospect for the possible trend of international gold prices in the future, to provide valuable references for investors and policymakers.

2. The Uncertainty of The global Economy

2.1. Impact of the COVID-19

One of the major impacts on the global economy in recent years is the COVID-19 epidemic [1]. Due to the high infectivity and mortality rate of the virus, the government departments took a serious attitude towards the COVID-19 epidemic, and usually adopted measures such as blockade and isolation, which significantly slowed down economic activities, leading to the rise of the unemployment rate and frustrated market confidence. In this context, some investors seek relatively safe investment methods to cope with high-risk markets. Therefore, due to its characteristics as a safe haven asset, the demand for gold has significantly increased during these periods. Global gold investment increased by 40% year-on-year in 2020 [2]. However, during the ongoing pandemic, the United States adopted a different response from most other countries, which is to maintain various economic and political activities. This ensures the normal development of the economy even if it leads to a decline in residents' living standards

2.2. Inflation Expectations

During the epidemic, central banks around the world have generally adopted loose monetary policies, including interest rate cuts and large-scale quantitative easing, in order to stimulate the economy. Quantitative easing involves injecting funds into the market by purchasing bonds and other assets when central bank interest rates are close to zero or negative, in order to lower long-term interest rates [3]. These policies have led to rapid economic recovery, but they may also result in inflation issues in the future. Some investors may analyze the future economic situation in conjunction with current political factors such as the pandemic, and some have successfully predicted inflation, thus choosing to invest in gold in advance, which further raises the price of gold.

2.3. Geopolitical risks

In 2022, the outbreak of the Russia-Ukraine war has brought global politics into a more tense phase, while also bringing enormous uncertainty to the international financial markets. The outbreak of such wars will not only lead to price increases in energy and related industries, but also trigger investors' demand for safety assets. Gold, as a traditional and versatile safe haven asset, saw a significant increase in price during the outbreak of war [4]. In addition, the trade friction between China and the United States is also one of the important factors contributing to the rise in international gold prices. Since 2018, this trade friction has continued to escalate, affecting investors' and governments' judgments on global trade and economic growth [5].

3. Analysis of The Reasons for The Rise in International Gold Prices and Future Trends

3.1. Quantitative Easing Policy

Quantitative easing is a monetary policy tool where central banks inject substantial liquidity into the economy by purchasing government bonds and other financial assets. This policy is primarily aimed at stimulating economic activity during periods of low growth or recession. However, while quantitative easing helps boost economic recovery it also has significant implications for asset prices, including gold. The increase in money supply lowers interest rates, reduces bond yields, and encourages investment in alternative assets like gold, which is seen as a hedge against inflation and currency depreciation. As liquidity in the market rises, so does the appeal of gold, driving up its prices. The demand surge for gold during periods of quantitative easing is often fueled by concerns over inflation, currency devaluation, and financial instability. According to data from the Federal Reserve

[6], its balance sheet has nearly doubled in size since 2020, reaching approximately \$8 trillion, reflecting the scale of liquidity injection. This massive expansion has played a critical role in pushing up gold prices as investors seek refuge in safe-haven assets amidst growing fears of currency erosion and inflationary pressures. The rise in gold prices driven by quantitative easing is not merely a short-term reaction; it represents a broader shift in investor strategy in times of uncertainty, with long-term implications for the global gold market.

3.2. The Decline in US Dollar Exchange Rate

The US dollar exchange rate is likely to decline during the pandemic period due to extensive monetary stimulus measures, including low interest rates and large-scale asset purchases by the Federal Reserve, which increase the money supply and reduce the dollar's relative value. When the US dollar depreciates, holders of the dollar may choose to purchase gold in order to preserve their value or hedge against currency risks, resulting in an increase in demand for gold and a rise in its price. In addition, the depreciation of the US dollar will result in the same amount of US dollars being exchanged for fewer other currencies, and the vast majority of the world's gold reserves are in the United States, leading to an increase in demand for gold in non-US dollar countries and thus an increase in gold prices [7]

3.3. The Cost of Gold Production

In competitive markets, the price of goods is usually determined by the marginal production cost [8]. For gold, the marginal cost of mining and refining is usually high because the gold deposits are becoming increasingly difficult to mine, and the remaining gold deposits are often located deeper underground or in remote geographical locations. These factors increase the cost of mining. If production costs increase, the supply curve of gold will shift to the left, leading to a decrease in gold supply in the market and thus pushing up gold prices. Changes in international logistics costs can also affect the price of gold. For example, if logistics costs increase due to rising fuel prices or international political tensions, the transportation cost of gold will increase. This cost increase is usually transmitted through the supply chain, leading to an increase in the final market price of gold.

4. Prediction of Future International Gold Prices

4.1. Global Economic Recovery

With the end of the COVID-19 epidemic, governments around the world have successively promoted relevant measures for economic recovery. Central banks around the world may gradually tighten monetary policy after the pandemic, such as raising interest rates, to cope with inflationary pressures. The rise in interest rates usually increases the opportunity cost of holding interest-free assets such as gold, thereby suppressing demand for gold. However, investors may experience a new round of panic due to economic uncertainty, leading them to purchase safe haven products in advance. Therefore, it is difficult to determine whether the price of gold will rise or fall solely based on economic recovery.

4.2. Continued Geopolitical Risks

Although there is a possibility of easing political conflicts such as the RussiaUkraine war and the US-China trade friction so far, new geopolitical risks may arise at any time. If the continuation of geopolitical risks prompts central banks (especially the Federal Reserve) to adopt tough monetary policies (such as interest rate hikes) to cope with economic impacts, it may lead to a strengthening of the US dollar and an increase in interest rates. In this situation, the opportunity cost of holding gold increases, and investors may be more inclined to choose assets with higher returns, leading to a

decline in gold prices. On the contrary, geopolitical risks can sometimes lead to a decrease in investors' confidence in the US dollar, especially when the risk directly affects the US economy or international status. The depreciation of the US dollar often drives up the price of gold denominated in US dollars.

4.3. Adjustment of Monetary Policy

The subsequent monetary policies of central banks around the world will continue to exert an indirect but significant impact on gold prices. If the economic recovery exceeds expectations, central banks may respond by tightening monetary policy, such as raising interest rates, to attract investors to shift their assets toward interest-bearing deposits, thereby reducing liquidity and alleviating inflationary pressures. This shift would likely decrease the demand for gold, as higher interest rates increase the opportunity cost of holding non-yielding assets like gold, making it challenging for gold prices to rise. On the other hand, if central banks maintain a loose monetary stance, keeping interest rates low and continuing with quantitative easing, the abundance of liquidity and concerns over potential inflation may sustain or even boost demand for gold, potentially driving prices upward. Hence, the direction of gold prices remains closely linked to how central banks navigate the balance between economic recovery and inflation control.

4.4. The Trend of the US Dollar

The trend of the US dollar will continue to have a significant impact on the price of gold [9]. Due to the Federal Reserve's long-term high interest rate monetary policy, the risk of investing in the US market is constantly accumulating, which exacerbates investors' concerns about the US dollar market and puts downward pressure on the US dollar. Based on the inverse relationship between the US dollar exchange rate and the price of gold that we mentioned earlier, there is a possibility of gold rising. However, based on the current situation of the US presidential election, the inauguration of a new president may bring sufficient confidence to the market, so the price of the US dollar may rebound after the presidential election, leading to a decrease in gold prices.

4.5. Other Factors Accountable for Change in Gold Prices

The supply and demand relationship, production costs, investor sentiment, and other factors of gold will continue to affect the price of gold, especially the gold reserve policies of central banks and changes in the holdings of gold ETFs. Gold ETFs and other financial derivatives such as futures contracts allow investors to invest in gold through financial markets rather than physical gold [4]. The change in ETF holdings is an important factor affecting gold prices. When investors purchase large quantities of gold ETFs, the fund needs to increase its gold reserves, drive up demand for physical gold, and thus raise prices. But if investors withdraw from gold ETFs, the demand for gold may decrease and the price may drop.

5. Conclusion

This study has important reference value for investors and policymakers. By understanding the influencing factors and future trends of gold prices, investors can make wiser investment decisions, and policymakers can better respond to fluctuations in financial markets. At the same time, this article also provides a new research perspective for the academic community, which helps to further understand the complexity of the gold market. However, this study mainly relies on existing literature and data, lacking empirical research and model analysis. In future research, more empirical methods such as econometric models can be used to improve the accuracy and reliability of the study. In

addition, this article mainly focuses on macroeconomic and policy factors, and in the future, the impact of micromarket behavior on gold prices can be further explored. Future research can be conducted in the following directions: Firstly, conducting an in-depth study of the characteristics of gold markets in different countries and regions and their impact on international gold prices. The second is to explore the impact of technological progress and the development of digital currencies on the gold market; The third is to study the impact of environmental, social and governance(ESG) factors on gold production and prices. These studies will help to comprehensively understand the future development trends of the gold market. In summary, the future trend of international gold prices will be influenced by multiple factors. Despite expectations of economic recovery, geopolitical risks and uncertainty in monetary policy will continue to have a significant impact on gold prices. Therefore, the price of gold may still maintain high volatility in the future.

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