

The Inverse Dance: Understanding Gold's Rise Amid US Dollar Decline

By Divyanshi Rastogi

“Gold price is heating up again. Wells Fargo now forecasts gold prices to soar between \$4500 and \$4700 per ounce by the end of 2026.”

– The Economic Times

Gold continues to attract substantial interest from both institutional investors and retail consumers, as prices have attained record levels throughout 2025. This price escalation has imposed notable affordability constraints on households, substantially reducing purchasing power for this conventional store of value compared to preceding periods. As stated in the reports by The Financial Express^[2] and the Rupeezy^[3], where Nifty gave a return of 2.46% and Sensex gave a return of 2.41% in the last one year, gold delivered approximately 61% over the past one year and 130% over the last five years, significantly outperforming benchmark stock market indices. This phenomenon raises substantive questions regarding the drivers of global gold demand and, as an extension, the stability of the current reserve currency, the US Dollar. It is a complex interplay of war, politics and global power, reflecting deep-seated anxieties regarding global monetary stability and geopolitical power shifts. Here we examine the gold rally through the lens of economic theories, frameworks and literature.

Over the past five years, China has significantly increased its gold purchases, reflecting a strategic effort to diversify reserves. The April 2025 report of LSEG confirms that the Chinese reserves have increased by 17% over the past five years. The Bank of Russia has also exhibited the underlying shift in its composition reflecting a change in reserve management strategies^[9]. The RBI, in its October 2025 bulletin, states that India alone expanded its reserves to over 880 metric tonnes by September 2025, buying approximately 0.6 metric tonnes of gold^{[14][15]}. This movement somewhere reflects a silent revolution driven by a lack of trust in the US dollar and the position of gold as a safe haven and strategic asset^[9]. This rally is underpinned by major macroeconomic, geopolitical and microeconomic factors.

Macroeconomic Factors

The Bretton Woods System and the Post-Nixon Exchange Rate Regime

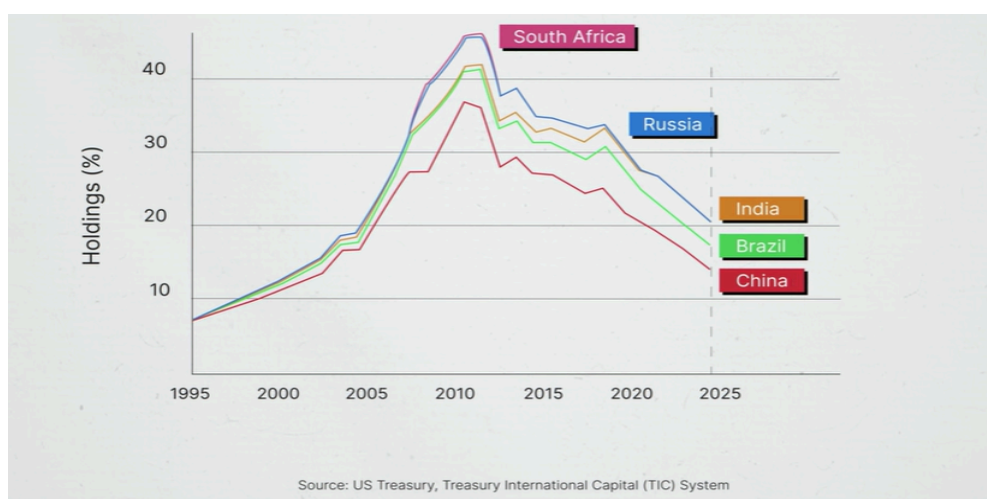
It is quite empirical that the prices of gold rise during war time. History gives ample proof of it. The explanation as to why it happens finds its roots in an agreement made in the year 1944 post World War II. United States emerging with its economy largely unscathed, having approximately 66% of the world's gold even post the war and dollar's role as primary reserve currency and its position as the default safe haven led it to becoming the world's leading economic power when much of Europe and Asia suffered devastating destruction to infrastructure and industry, resulting in severe economic challenges.

Under the Bretton Woods System, the US Dollar assumed the role of the dominant reserve currency. The dollar was convertible to gold at a rate of \$35 per ounce. Later, termination of dollar-gold convertibility by Richard Nixon, known as the "Nixon Shock," in 1971 meant that the US dollar was no longer backed by gold. This eliminated the gold standard constraint on monetary expansion. However, as economic theory suggests that the removal of commodity-based constraints on currency issuance increases the probability of the currency to depreciate, while the US still remained the dominant force in world trade and debt, the price of gold rose sharply as investors and governments began to see gold as a safer store of value than the dollar. This principle derives from the Pure Theory of Fiat Money contrasted with Commodity Money theory developed by Knut Wicksell and later formalized in Milton Friedman's analyses of monetary regimes. Looking at the data of the last 9 years, there has been a 458% rise in the prices of gold. The period after this saw the emergence of gold as the 'ultimate safety net'.

Lack of trust in the US Dollar

As seen below in the chart by Treasury International Capital (TIC) System, economies like China, Russia, and India have been decreasing their US treasury holdings owing to multiple reasons including diversification against the US treasury and lack of trust in the dollar. This is evidenced by active buying of gold, tonnage growth of gold and changes in reserve composition. The post 2008 monetary expansion represents a significant driver of gold demand. The US had printed almost \$2.1

trillion in the name of ‘quantitative easing’. This asset purchase program aimed to lower long-term interest rates and stimulate the economy when traditional monetary policy became ineffective. Economic theory, particularly the quantity theory of money by Irving Fisher, predicts that sustained monetary expansion unmatched by corresponding productivity gains precipitates currency depreciation and inflation. Additionally, the 2022 freezing of Russian Central Bank assets of about \$300 billion, including US controlling about \$5 billion, as Russia invaded Ukraine represented a significant economic sanction aimed at reducing Russia’s ability to finance its war efforts. While this was a major event, it followed a long history of the US using its financial dominance to influence international behaviour, proving its control over the world economy.



This caused an upheaval by demonstrating that the US and its allies have the power to freeze or block the assets of any nation if deemed necessary by them under the geopolitical circumstances. This brought about the kick start of the ‘silent revolution’ of the dollar losing its worth and gold reserves expanding across the globe. From a theoretical perspective, this shift reflects a rational response to heightened counterparty risk associated with concentrated reserves in assets subject to unilateral freezing or seizure. Data from 2022 to 2024 by the World Gold Council indicates that central banks have accumulated around 3200 tons of gold, making it the biggest buying spree in history, with China, India and Russia accounting for the majority of these acquisitions. In short, while the dollar still maintains a dominant and pragmatic role in global trade and finance, there is a significant, strategic effort by many nations to prepare for a future less reliant on the US dollar, understanding that this transition is not a short-term shift but a structural change spanning over several years.

However, the influence on gold isn't just due to the above macro factors but also due to micro factors. The following section analyses demand-side factors operating at the level of individual investors, institutional asset managers and national consumer cohorts.

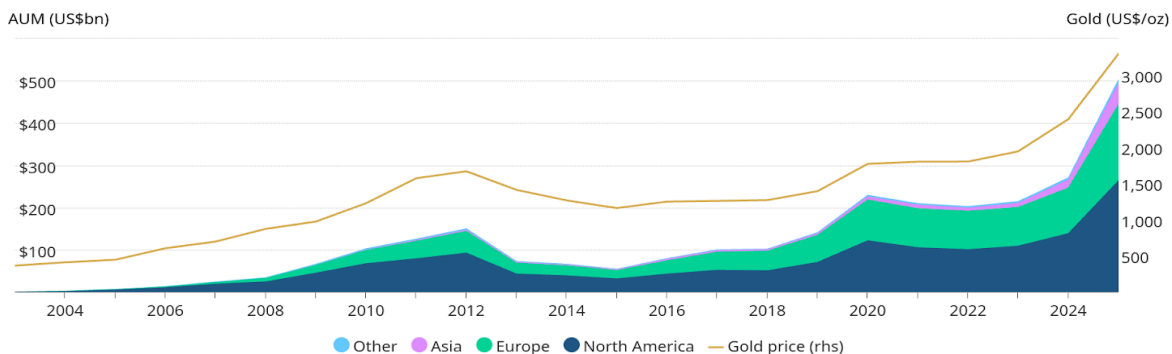
Microeconomic Factors

Global citizens and investors

Apart from the geopolitical reasons, another reason for this gold rally is the behaviour of the population.

Gold ETFs holdings by region

Yearly holdings in Dollars



Data as of 14 November, 2025

Sources: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council; Disclaimer: <https://www.gold.org/terms-and-conditions#proprietary-rights>

GOLDHUB.COM  WORLD GOLD COUNCIL

As per the above chart by the World Gold Council, an asset seemingly gaining popularity is the gold ETFs. ETF stands for Exchange Traded Funds and a gold ETF simply allows you to invest in gold without actually buying tangible gold. The transactions are done digitally but it needs to be backed by real gold of equivalent amount. Fund managers keep these transactions in check.

With all the geopolitical tensions, panic buying rose among the general public which led to an increase in the demand of digital gold. Fund managers buy more and more gold to match the demand which results in supply squeeze, ultimately resulting in a gold rally. The total value of ETFs in India

in 2019 stood at Rs.5768 crores which rose to Rs.90136 crores in 2025, almost 15 times growth in 6 years. This is the result of both price appreciation and massive volume inflows from investors. Global physically backed gold ETFs recorded their largest monthly inflow in September 2025 totalling to \$26 billion.

Exchange Rate Effects and Domestic Currency Depreciation

The Indian Rupee is depreciating while gold and dollar are appreciating. As the Indian Rupee weakened from Rs.61 to Rs. 89.64 per Dollar between 2013 and 2025, gold reasserted its status as the 'ultimate safety net,' with prices for 10 grams climbing from ₹29,600 to ₹1,22,170. This dual movement, domestic currency depreciation coupled with gold price appreciation, reflects the operation of relative purchasing power parity and creates incentives for domestic gold accumulation. From a microeconomic perspective, consumers operating under currency depreciation expectations exhibit heightened demand for non-monetary stores of value like gold since when consumers expect their currency to lose value, it poses them a guaranteed loss to hold cash. Hence, gold is not just expensive for them, but an asset serving as the ultimate safety net.

The Role of Cultural and Festive consumption

Retail gold demand in India exhibits pronounced seasonality driven by cultural and ceremonial occasions. Festivals like Diwali, Dhanteras, and wedding seasons traditionally drive significant gold buying, accounting for approximately 40-50% of annual gold consumption within 4-6 months window, which tends to push prices upward. This demand pattern reflects intertemporal consumption rather than purely speculative behaviour. This phenomenon aligns with behavioural finance literature on loss and portfolio rebalancing during uncertainty which highlights how loss aversion and the disposition effect cause investors to hold losing assets too long while prematurely selling winners. As the currency value erodes, investors and institutions are systematically shifting towards gold to mitigate the loss caused by depreciating currency. The 2022 freezing of Russian assets served as a major behavioural catalyst, highlighting the nature of US Treasuries. This accelerated the shift towards gold as a neutral asset that is independent of any government and cannot be frozen or cancelled. The World Gold Council data indicates a 12% YoY increase in Indian retail gold demand that reached 3,457 metric tons in 2024.

Alternative Asset Underperformance and the Demand for Precious Metal

A significant driver of gold accumulation in East Asian markets reflects underperformance of traditional equity and real estate classes. While, in the last 5 years, Nasdaq and Sensex gave returns of approximately 94% and 108% respectively, Shanghai Composite Index (SCI) gave only about 17% returns. Additionally, Chinese citizens have been witnessing a fall in real estate prices. Concurrently, 2024 saw a 4.5% contraction in Chinese real estate prices, which, by simple economics, has resulted in an increased supply of real estate and a drop in prices following years of regulatory intervention and mortgage market dysfunction. From portfolio theory, when primary investment assets yield returns below required rates of return, rational investors substitute towards alternative assets, including precious metals, here gold. The collapse in returns from both stock and real estate markets has left the Chinese investors with no choice other than to invest in gold.

Conclusion

The gradual decline of the US dollar can be attributed to a complex interplay of geopolitical tensions, macroeconomic challenges, and microeconomic shifts. Geopolitically, the growing scepticism toward the US Dollar has eroded confidence in the dollar as the world's sole reserve currency. Macroeconomic factors, including diminished trust in the dollar due to prolonged wars and economic crises have exerted downward pressure on the dollar's value. At the microeconomic level, the growing popularity of exchange-traded funds (ETFs) as alternative investment vehicles, increasing demand for gold, driven by investors and central banks seeking a stable store of value amid currency depreciation and economic uncertainty, has bolstered gold prices significantly.

As the recent research of Goldhub, World Gold Council, states, the “total gold demand in 2025, including OTC, exceeded 5,000t for the first time”. This was accompanied by a record breaking run in the gold prices. It set 53 new all-time highs during the year 2025. The overall demand growth was driven by heightened investment activity where global gold ETF holdings grew 801t, the second strongest year on record, while bar and coin buying accelerated to reach a 12-year high. A consistent driver to it was noted to be safe haven and diversification motives along with price driven motivations. Central bank purchases of 863t reached the upper end of the expected 2025 range remaining “historically elevated and geographically widespread but have slowed from their recent pace” as per the research.^[17]

The bifurcated analysis suggests that the ongoing accumulations of gold reserves represent not a temporary speculative phenomenon but rather a rational, systematic reallocation within global portfolio structures.

These forces illustrate a slow but significant reshaping of the global financial landscape, signalling a transitional era away from dollar dominance and toward diversified asset preferences including gold, factoring in that this is not a quick transition but a paradigm shift spanning over at least 50 years or more. Such a shift reflects a deep-rooted change in economic power dynamics, international trade relations and monetary policy frameworks. It underscores the evolving nature of global finance, where reliance on a single dominant currency is gradually giving way to a multipolar currency system and diversified investment strategies.

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