

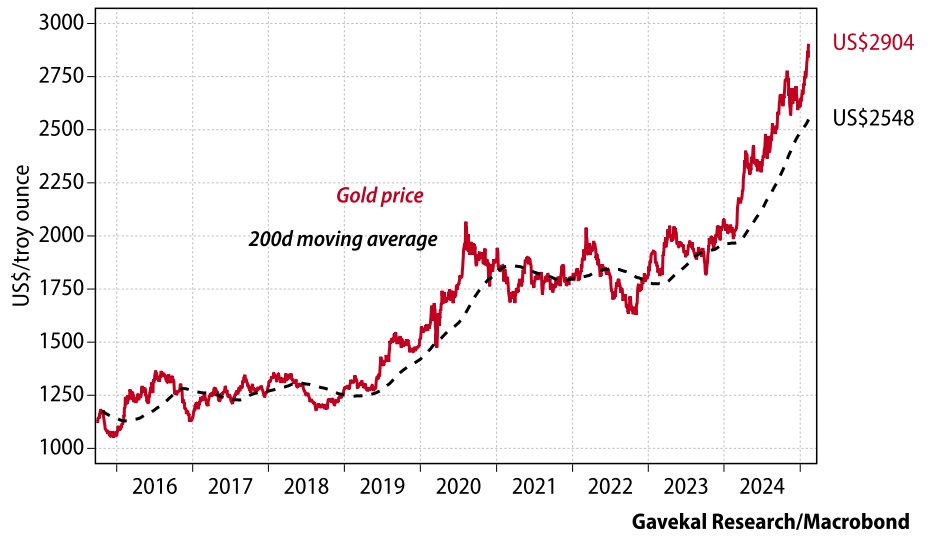
# Gold's Strong Start To 2025

**Louis-Vincent Gave**  
louis@gavekal.com

Gold has had a roaring start to the year. Having breached US\$2,900 an ounce on Monday, the precious metal hit a record level above its 200-day moving average that topped US\$350. And given investors' attraction for round numbers, US\$3,000 an ounce is now the number in everyone's sights.

Gold has soared out of the traps in 2025

**Gold has had a strong start to 2025**



It marks the acceleration of a bull market which has been driven by three particular factors in recent years

Key reasons underpinning this roaring bull market include the following:

- 1) The confiscation by Western governments of Russian foreign exchange reserves and Russian oligarchs' wealth. This changed the global financial architecture (see [What Freezing Russia's Reserves Means](#)).
- 2) The hangover following the Covid-era loose monetary and fiscal policies (see my 2021 book [Avoiding the Punch](#)).
- 3) The morphing of the US-China trade war into a tech war and a "great power" conflict (see Charles and my 2019 book [Clash of Empires](#)).

## Checking The Boxes

Our short take on the latest news

Fact	Consensus belief	Our reaction
<b>Japan Eco Watchers survey current expectations index fell to 48.6 in Jan, vs 49.9 in Dec</b>	Below expected 49.7; outlook index fell to 48 in Jan vs 48.8 in Dec	Economic momentum remains in broad upward trend amid prospect of wage gains
<b>Eurozone Sentix investor confidence index rose to -12.7 in Feb, from -17.7 in Jan</b>	Above expected -16.5	Early indications that investors are appreciating eurozone's ongoing economic stabilization
<b>Sweden industrial production rose 5.7% MoM in Dec, up from 2.4% in Nov</b>	NA; YoY, industrial production rose 8.7% in Dec vs 2.8% in Nov	Driven by mfg; early signs of a positive upward trend in industrial output emerging
<b>Turkey industrial production rose 5% MoM in Dec, up from 2.9% in Nov</b>	NA; YoY, industrial production rose 7% in Dec vs 1.6% in Nov	Despite lingering inflation concerns, Turkish economy firmly on the road to recovery

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Because of all these factors, gold has been very strong, even in the face of rising US bond yields and a muscular US dollar; i.e. market conditions that would usually weigh gold down. **It, thus, feels as if gold’s fundamental backdrop has shifted in a structural way.**

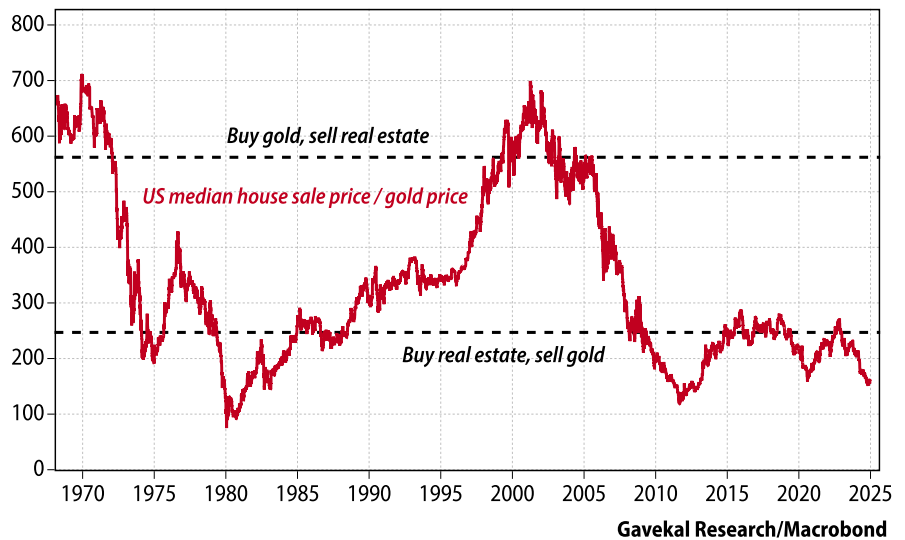
The catalyst for this year’s gold price surge may be more technical in nature

The catalyst for this year’s sharp rally may, however, be more technical. In particular, the US’s threat to impose tariffs on all goods coming out of Canada and Mexico has spurred fears that duties will be imposed on gold and silver imports (see [The Politics Behind The Tariffs On Canada](#)). Such duties would make physical settlement of futures positions suddenly more onerous. As a result, the cost of borrowing gold (and silver) has shot up, as has the cost of shorting big precious metal exchange traded funds listed in the US (GLD.US and SLV.US); gold has been leaving London, Zurich and Toronto to make its way to the US. In short, the threat of tariffs has unleashed a “short-squeeze” of sorts. This means that **the fundamentals of the gold bull market are still strong** (i.e. first and foremost, the desire by foreigners to diversify away from an unpredictable US) and **the technicals are rock solid.**

It is true that most valuation metrics for gold are getting stretched

Now as most seasoned investors know, standing in front of a short squeeze is a challenging way to make a living! Against that, **the main concern has to be that valuation metrics for gold are getting stretched.** In the US, the ratio of gold-to-oil, gold-to-wages, or gold-to-real estate is approaching highs (see [Gold Strategy: The Challenge Of Valuing Gold \(Part II\)](#)). All of this raises the question, what could “go right” for gold from here on out, as well as the question what could “go wrong” for the metal.

**Gold looks expensive when compared to US real estate**



**What could “go right” for the gold price in 2025?**

It is useful to consider factors that could be supportive for the gold price in 2025

- **More threats of financial sanctions from the US:** lost in the six hour “trade war” between Colombia and the United States in late January was Donald Trump’s [threat](#) to impose financial sanctions on Bogotá. Bottom line: the more the US threatens to weaponize the US dollar, the more such threats encourage other countries to look for alternatives to the US dollar. And more often than not, gold is the first port of call.

A big driver of a strong gold price could be continued US-China tensions

If treasuries remain challenged, then gold should be a beneficiary as investors seek out an alternative “anti-fragile” asset

Gold could be retarded by the effect of a material cut in US government spending

- **A further breakdown in the US-China relationship:** in China, private investors and the central bank have both become big buyers of gold. Assets under management for gold ETFs went from about 50 metric tons in 2022 to 120 mt at the close of 2024. The People’s Bank of China reported another 10 mt purchase of gold in December 2024, on top of 5 mt it bought in November. Moreover, on Friday, the PBoC reported that gold holdings in its foreign exchange reserves now stand at an all-time high. Many forces are likely driving these purchases but the uncertainty in the US-China relationship has to be key. Consider the fact that on April 1 a key report on tariffs will be released by the US Trade Representative and the Commerce and Treasury departments (see [Tariffs Delayed Are Not Tariffs Denied](#)), while Presidents Donald Trump and Xi Jinping are unlikely to meet before May (at the earliest). In addition, China just gave domestic insurance companies the [green light](#) to buy gold, which promises an additional source of demand for the metal.
- **The imposition of actual tariffs on gold and silver by the US:** this would likely amplify the current short squeeze.
- **Anything that undermines US treasuries further:** while US treasuries have been the backbone of many investing strategies in recent decades, the asset has now suffered four consecutive down years. As a result, long-term capital allocators like private wealth managers and pension funds are looking for an alternative “anti-fragile” bulwark within their portfolios.

#### Against that, what could “go wrong” for the gold price in 2025?

- **A Ukraine deal that sees Russian assets returned?** The starting gun to the current bull run was the confiscation of Russian assets. A deal that essentially says “let bygones be bygones” could thus weigh on the gold price (and would likely boost the euro exchange rate).
- **A meaningful cut in US government spending?** A tightening of the US government’s belt would not only reduce the supply of US treasuries. It would also put pressure on other OECD countries to get their own spending in order. This would be bullish for government bonds everywhere, and bearish for gold.
- **A sustained bull market in China?** To the extent that China’s recycling of its gargantuan trade surplus is an important driver of today’s gold price, a continued rally in Chinese equities might start to see Chinese capital gradually shift from the bid side of the gold price to the bid side of Chinese equities.

To be clear, for now the drivers of the gold bull market are very visible, while the potential threats are more hypothetical, although a notable exception is the unfolding Chinese equity bull market (see [The Narrative Shifts So Far In 2025](#)). Still, given the reality of a gold price that is starting to look expensive against other commodities, and against most historical markers, keeping an eye on what could possibly go wrong for gold makes sense.