Geopolitics, De-dollarization, and Central Bank Gold Purchasing Behavior Impact on Traditional Gold Price

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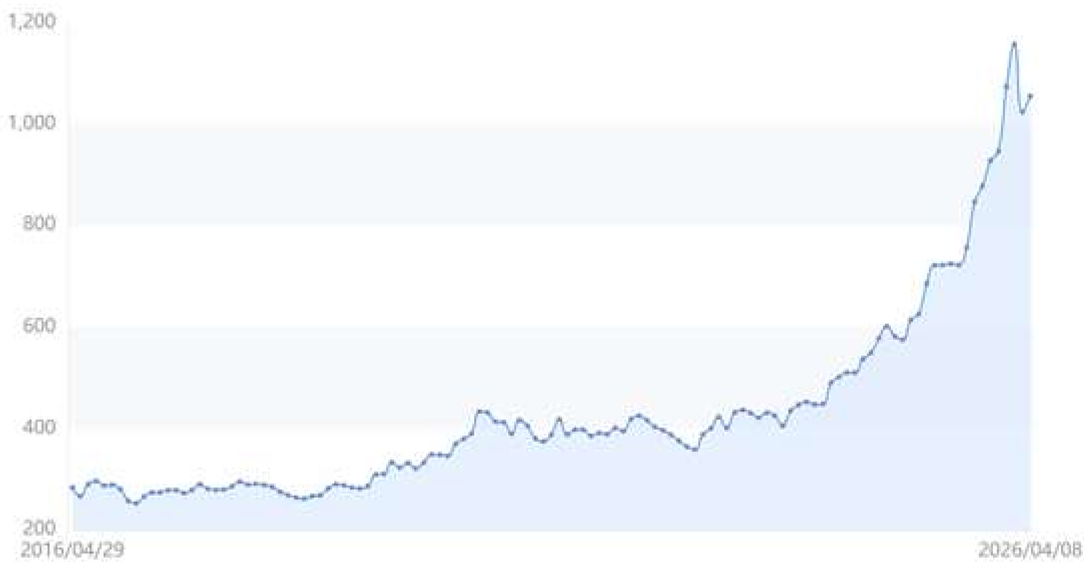
ABSTRACT

Gold is a very special asset, which has both commodity attributes, currency and hedging functions. In the past, the price of gold was mainly determined by dollar credit, and its value system was formed by spot pricing in LBMA, London and futures price in COMEX, new york, especially relying on the single factors of American real interest rate and dollar exchange rate, showing the characteristics of "dollar-dominated and market speculation-driven". However, in recent years, the normalization of global geopolitical conflicts, the acceleration of dollarization, and the continuous increase of gold holdings by central banks have combined to break the traditional gold pricing mechanism and make the original valuation logic less stable.

Keywords: geopolitics; de-dollarization; central bank gold purchases; gold price

1. INTRODUCTION

Figure 1. Gold Price Trends in the Past Decade



Since 2022, the international gold price has fluctuated violently, but the explanatory power of the traditional pricing framework centered on the real interest rate, Dollar Index and inflation expectations in the United States has obviously decreased [3]. This study systematically analyzes the structural influence of geopolitical conflict on the safe-haven demand of gold, the reconstruction of gold pricing benchmark by dollarization, and the reshaping effect of central bank's gold purchase on the supply-demand pattern and market dominance, and discusses the inadaptability of the traditional pricing system and its possible transformation path under the interweaving of these three factors.

Most of the existing studies focus on a single factor that affects the pricing of gold, but the research on its synergy and transmission mechanism to the traditional pricing framework as a whole system is still scarce. This method often ignores that things are interrelated-for example, how dollarization will make the competition between countries more intense, and this competition will prompt the central bank to buy more gold, which together will eventually affect the price of gold. Such limitations make it impossible for us to fully understand the real reasons behind the reform of pricing system, and it is also difficult for us to clearly understand the law of gold price change formed by the interaction of these three aspects.

Our research is helpful to find out how the gold pricing mechanism has evolved under the changing global situation, and can enrich related theories. It can also provide theoretical reference and practical guidance for central banks around the world to manage reserves, market participants to make investment decisions, and the supervision of the gold market, helping everyone to better cope with the opportunities and challenges brought about by the reform of the pricing system.

2. RESEARCH ON GEOPOLITICS

Gold is a very special asset, which can not only avoid risks, but also has the characteristics of money and commodities. Its price fluctuation is closely related to geopolitical events in the world. These events will affect the price of gold in many ways: for example, changing people's attitude towards risks, affecting people's trust in the dollar, conveying inflation expectations, and changing the central bank's monetary policy. These influences will not only bring short-term price shocks, but also shape medium-and long-term price trends. In this way, the traditional logic of gold price (mainly looking at the dollar and the real interest rate) has been challenged. This dynamic change has become the key driving force for the transformation of the current gold pricing mechanism.

2.1 Case Analysis

2.1.1 Empirical Data Analysis of the Impact of the Ukraine Crisis on International Gold Prices

After the outbreak of the Ukrainian crisis in February 2022, the international gold price rose because of the demand for safe haven, and the trend was closely related to the development of the crisis. The crisis has disrupted the global energy and food markets, increased uncertainty and made a lot of money flow to gold. According to the data of World Gold Council, the price of gold once rose to a high of $2,050 per ounce after the crisis began. In 2022, the demand for gold increased by 12% year-on-year, mainly due to investors' risk aversion and central banks' buying of gold. When the conflict escalated in 2024, the demand for gold remained strong, and the global demand for gold increased by 9% in the third quarter. During the most tense critical period from July to October, the global gold ETF holdings continued to increase. The actual data show that the price of gold will rise rapidly when the crisis breaks out and escalates, and then there will be a slight correction after the conflict eases, which shows that the Ukrainian crisis has both obvious short-term impact and long-term support for international gold prices. [1]

2.1.2 Empirical Analysis of Middle East Situation's Impact on Gold Prices

The tension in the Middle East may make the global energy market unstable, and the rising oil price makes everyone more worried about inflation, so people want to buy gold, a safe thing, to deal with inflation. In 2024, the increasingly serious Israeli-Palestinian conflict and the civil war in Libya led to a sharp decline in oil production and exports, pushing Brent crude oil prices from $80 a barrel at the beginning of the year to $90 a barrel around October-an increase of more than 10%. As a result, global demand for gold increased by about 7% year-on-year in the third quarter. During the most violent conflict from September to October, the price of gold rose from $2,500 to $2,580 per ounce, which shows that the instability in the Middle East has had a great positive impact on international gold prices through fluctuations in the energy market.

2.2 Core Mechanisms of Geopolitics on Gold Price

The influence of geopolitics on gold price is indirect, and it passes through four core aspects like a chain: risk transmission-expected adjustment-capital flow. These interrelated paths will work together to determine the direction and magnitude of gold price fluctuation.

2.2.1 Risk aversion demand transmission mechanism

The "sovereign-free credit risk" feature of gold makes it "ultimate safe haven" in geopolitical conflicts. When the conflict escalates and the market panic intensifies, people dare not take risks to invest, and money will run from risky assets to gold to avoid risks, which directly makes the price of gold rise. The more serious the conflict and the more uncertain the situation, the more the price of gold will rise. For example, in January 2026, when tensions in the Middle East escalated, the price of COMEX gold fluctuated by 11% in one day. After the US-Israel joint military operation began in February, the spot gold price in London suddenly rose to more than $5,400 per ounce, and the global gold ETF also set a record for the net inflow of funds that month.

2.2.2 US Dollar Credit Transmission Mechanism

Gold is priced in dollars, and the dollar's unreliability and exchange rate determine the "elasticity" of gold prices. Various international events will indirectly change the price of gold by affecting everyone's trust in the US dollar. If the United States often makes some big moves in the international arena, people may begin to suspect that the dollar is still unreliable, so that the process of dollarization will be accelerated, the dollar will become worthless, and the price of gold may rise, making gold more like an asset beyond the country. Although the US dollar may temporarily strengthen when there is a conflict outside the United States, causing the price of gold to fall, this pressure is usually offset by the long-term demand for gold as a safe haven. In the medium and long term, international tension is still the most important reason to promote the change of gold price.

2.2.3 Inflation Transmission Mechanism

Geopolitical conflicts have disrupted the supply of goods and pushed up people's worries about inflation. As an asset that can resist inflation, gold has formed a transmission chain: "geopolitical tension → rising commodity prices → rising inflation expectations → rising gold prices". The instability of Middle East threatens energy security, and the interruption of key supply routes has triggered a surge in oil prices, which has further pushed up inflation. This prompted the flow of funds to gold and pushed the price of gold up.

2.2.4 Monetary Policy Transmission Mechanism

Geopolitical tension makes the future of the global economy more uncertain, which makes central banks adopt loose monetary policies. In this way, the opportunity cost of holding gold will be reduced, and funds will flow in to push the price of gold up. But there is a contradiction: if the inflationary pressure is too great, the central bank may have to tighten its policy, which will make the price of gold fall in a short time. However, in the long run, people still think that the currency will remain loose, which is the basic reason to support the price of gold.

3. IMPACT OF DE-DOLLARIZATION

In January 2026, the international gold price experienced a historic surge. Now the main reason for pushing up the price of gold has changed. In the past, people bought gold to fight inflation, but now they want to avoid the risks brought by conflicts around the world and the uncertainty of the global credit system (such as dollarization). In addition, the dollar has become less valuable, central banks all over the world are buying gold, and a lot of money has flowed into the gold market, which has caused the price of gold to break through the important barriers of $5,000, $5,100 and $5,300 per ounce again and again [8].

3.1 The Impact of Dollar Index Changes on Gold Price

The US dollar index has an important influence on the gold futures price in China, and this influence is staged, and it will rise first, then fall and then rise in the short term. Through analysis, it is found that the appreciation of the US dollar will push up the price of gold soon, but the effect will weaken after a long time, and finally it will stabilize-this is because policy regulation, market linkage and impact resistance are at work. During the financial crisis in 2008, the hedging function of gold temporarily failed, causing the dollar and gold to fall together. During the European debt crisis in 2011, the dollar depreciated, people's confidence in the currency declined, and the price of gold was pushed to an all-time high. During the epidemic in 2020, the loose global monetary policy weakened the independent influence of the US dollar on the gold price, which made the relationship between the two more complicated. [6]

Figure 2. Dollar Index and Gold Price Trend

In the long run, there is an interactive relationship between US Dollar Index and dollarization. De-dollarization is like a general trend to change the global monetary system. By reducing the use of the US dollar in trade settlement and foreign exchange reserves, it continuously weakens the demand and credit base of the US dollar, which brings the core pressure to the decline of the US dollar index. Conversely, the weakening of the US dollar index will reduce the relative allocation cost of non-US currencies and gold, further promote countries to accelerate the diversification of reserves and reduce their dependence on the US dollar, and form a phased strengthening effect.

3.2 Mechanism of Action

The central bank's buying of gold has given hard support: in the context of dollarization, global central banks have increased their gold reserves while reducing US debt, forming a strategic buying without looking at the price [7]. From 2022 to 2025, global central banks buy more than 1000 tons of gold every year. By the middle of 2025, the proportion of gold in the central bank's reserves exceeded the US debt for the first time, which directly supported the price of gold and made the gold in the market less.

Gold replaces the reserve and hedging function of the US dollar: because the US national debt is too high and the monetary policy is always used as a weapon, the credit of the US dollar is getting worse. Gold, a hard currency without sovereign risk, has become the first choice for countries to hedge the credit risk of US dollars. Money ran from dollar assets to gold, pushing the price of gold up all the time.

The change of pricing logic has strengthened the support: in the past, the price of gold mainly depended on the US dollar index and the real interest rate. But now, under the background of dollarization, the monetary attribute of gold has surpassed the commodity attribute, and the pricing logic has begun to turn to "credit anchoring". Even the short-term fluctuation of the US dollar can make gold maintain its independent price trend through the purchase of gold by central banks and everyone's safe-haven demand.

4. CENTRAL BANK GOLD PURCHASE BEHAVIOR

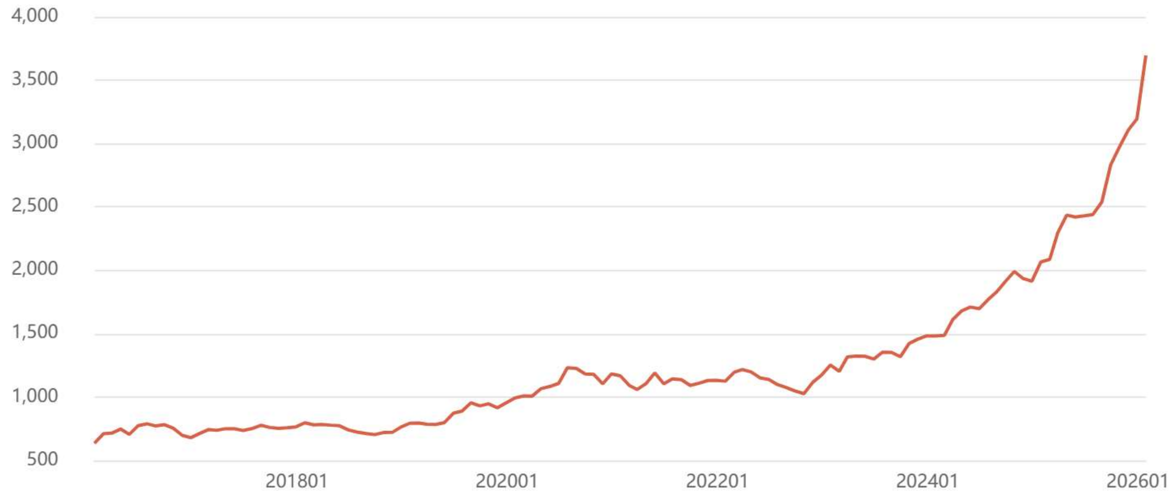
Since 2022, the global central bank's demand for gold has greatly increased, which has become the main driving force affecting the price of gold. During the period from the financial crisis in 2008 to 2022, central banks bought an average of 500 tons of gold every year, which only accounted for 11% of the global total demand for gold (about 4,500 tons per year), so the impact on the price was relatively small. After the outbreak of the Ukrainian crisis in 2022, the central bank's annual purchases of gold doubled to about 1,000 tons, and they also accounted for more than 20% of the global gold demand.

This is an important change, making the central bank's purchase of gold the most important driving force for the continuous rise of gold prices. [2]

This round of central bank buying gold shows obvious regional differences. Most of the increased gold is concentrated in the central bank of emerging markets, such as Poland, Turkey, China, Egypt and India. However, most developed countries' central bank gold increased less, and some EU countries even reduced their gold reserves for three consecutive years. The central bank of Emerging markets bought a lot of gold, mainly because the international situation has changed, geopolitical risks have become higher, and U.S. and Europe have imposed sanctions on Russia. These events have greatly increased the demand for the safety and diversity of foreign exchange reserves in various countries, which has promoted the rebalancing of gold reserves. (excerpt from examining global gold demand changes from central bank gold purchases and investment demand by Chen Qiao)

4.1 Current gold purchase strategy of China's central bank

Figure 3. Central Bank Gold Purchase Trend



The central bank's increase in buying gold is not to make a short-term profit, but a very important strategy in the context of reducing the use of dollars. This is done to protect the financial security of our country, to better manage foreign exchange reserves, and to hedge some risks. [9]

There are four main reasons behind this long-term strategy. And these four points are all in line with the actual purchase of gold by global central banks during the period from 2022 to 2026.

4.2 Core Reasons for Central Bank Gold Purchases

4.2.1 Hedging against US dollar credit risk and advancing de-dollarization:

The soaring debt of the United States (which will exceed $38.4 trillion by the end of 2025) and the abuse of financial sanctions have made the credit of the US dollar worse. As a hard currency with no sovereign risk and will not be frozen, gold has become the first choice for everyone to hedge the risk of dollar assets, and it can also help reduce dependence on the dollar system.

4.2.2 Optimize foreign exchange reserve structure and address allocation gaps:

The average proportion of gold reserves of central banks in the world is about 15%, but the proportion is much lower in emerging economies like China and India (China is only about 9.7%). Increasing gold reserves can reduce the proportion of dollar assets, make our reserve assets more diverse and stable, and strengthen the defense ability of financial security.

4.2.3 Mitigate geopolitical and macro risks, serving as a "ballast stone":

With the normalization of global geopolitical conflicts and the intensification of economic uncertainty, the ultimate safe-haven property of gold has become particularly prominent. In extreme cases, it can be used as a "last resort" for crossborder payment, so that central banks can cope with various risks such as inflation and exchange rate fluctuations, thus protecting the country's financial stability.

4.2.4 Supporting the internationalization of domestic currencies and strengthening currency credibility:

Sufficient gold reserves can provide real value support for domestic currencies and enhance international confidence in them. For example, China's purchase of gold helped RMB internationalization. Southeast Asia has also piloted the "RMB-denominated+gold settlement" model to bypass the US dollar settlement system.

4.3 How Central Bank Gold Purchases Influence Gold Prices through Rigid Demand

4.3.1 Rigid Support for Supply and Demand

The core of central banks' hard demand for gold comes from their strategic reserve targets. This demand is not affected by short-term gold price fluctuations, and is characterized by continuous buying, long-term holding and reluctance to sell. Their large-scale purchase of gold directly eats up a large part of the new global gold supply every year, and draws a large amount of physical gold out of the circulation market, which makes the tradable inventory tense. This will not only provide hard support when the price of gold falls, offset the pressure of speculative selling and the range of ceiling price's correction, but also provide a bottom for the price of gold as a whole and reduce the possibility of large price fluctuations.

4.3.2 Reshaping Pricing Logic

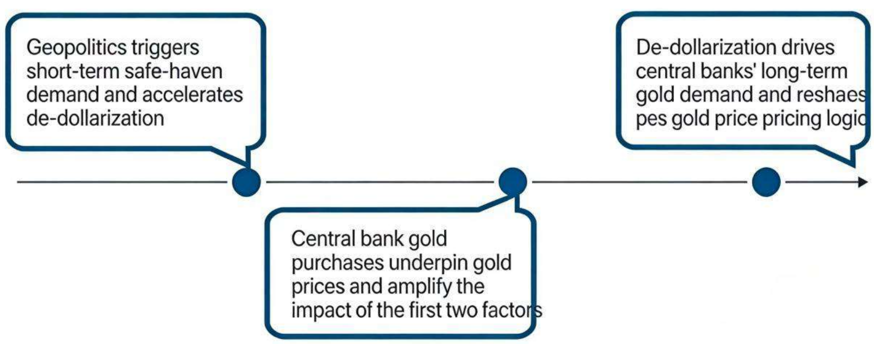
The core of central banks' hard demand for gold comes from their strategic reserve targets. This demand is not affected by short-term gold price fluctuations, and is characterized by continuous buying, long-term holding and reluctance to sell. They buy gold on a large scale, directly eating up a large part of the new global gold supply every year, taking a large amount of physical gold away from the circulation market, resulting in less tradable stocks. This will not only provide hard support when the price of gold falls, offset the pressure of speculative selling and the range of ceiling price's correction, but also provide a bottom for the price of gold as a whole and reduce the possibility of large price fluctuations.

4.3.3 Strengthening Market Expectations

As an authoritative organization, central banks continues to buy gold itself, which is an official recognition of the long-term value of gold and sends a strong bullish signal. This signal can resonate with the market, prompting institutions, ETFs and individual investors to follow suit, forming a positive cycle of "central bank buys gold → gold price rises → market follows suit → gold price rises further". This will not only make the market more optimistic about the long-term trend of gold, but also further push up the price of gold and consolidate the upward trend.

5. SYNERGISTIC EFFECTS OF GEOPOLITICS, DE-DOLLARIZATION AND CENTRAL BANK GOLD PURCHASES ON GOLD PRICES

Figure 4. Geopolitics, De-dollarization, and Central Bank Gold Purchasing Behavior's cooperation



5.1 Conclusion

Geopolitics, dollarization, and the central bank's purchase of gold do not affect the price of gold alone. They will influence each other and together make the price fluctuate more severely. Geopolitical conflicts are like catalysts-for example, the

Russia-Ukraine war, which will make people want to avoid risks in the short term and expose the problems of the dollar system, which will promote dollarization and the central bank to buy gold. De-dollarization is the core driving force: the weakening of dollar's credit makes gold an important reserve option, which urges the central bank to "must" buy gold, and also allows the private sector to increase its allocation, which provides long-term support for the price of gold. The central bank's purchase of gold is a key channel-since 2022, the purchase of gold has doubled, and emerging markets have become the main buyers. Their rigid demand has changed the relationship between supply and demand of gold, stabilized the price, strengthened bullish expectations and attracted capital inflows. These three factors are interrelated through the reorganization of the credit system, forming a synergistic effect of "short-term risk aversion impulse+long-term value support", which together amplifies the driving force for gold prices.

6. PROPOSE

6.1 Central Bank Level

We should optimize the gold reserve management system and appropriately increase the proportion of gold in foreign exchange reserves in combination with global geopolitical changes and the trend of dollarization. This can effectively reduce the risks such as exchange rate fluctuation and credit default brought by the single currency reserve, and enhance the security and risk resistance of foreign exchange reserves. It is necessary to establish a sound monitoring and evaluation mechanism for geopolitical risks and the process of dollarization, track the global dynamics and the reserve adjustment of major economies in real time, dynamically optimize the trading cycle of gold reserves, and realize the scientific allocation of assets. At the same time, strengthen communication and cooperation among international central banks, promote the diversification and rationalization of gold pricing mechanism, break the monopoly of single currency pricing system, and enhance the voice of emerging market central banks in gold pricing decisions.

6.2 Financial Institution Level

We need to upgrade the gold price forecasting model, including geopolitical conflicts, the amount of gold bought by the central bank, and changes in the credit conditions of the US dollar, so that we can more accurately predict short-term price fluctuations and long-term trends. The portfolio of financial products will also be expanded, and diversified options such as gold wealth management products, gold futures, gold ETFs and gold leasing services will be added to meet the needs of individual and institutional customers for hedging risks, capital appreciation and speculative trading, and to meet different asset allocation requirements. We should also establish a daily gold price fluctuation monitoring system to track the price changes and reasons in real time, accurately evaluate the risk exposure of related businesses, formulate targeted risk response plans, and strictly control the risks of all gold-related businesses.

6.3 Individual and Institutional Investors Level

Change old investment ideas and stop thinking only about short-term speculation. We should understand that when people reduce the use of US dollars, gold can help us guard against credit risks and preserve value for a long time, so it should be regarded as the core asset in our portfolio to deal with risks. Through the diversified collocation of "gold+other financial assets", we can optimize our asset allocation, which can not only give play to the risk-averse characteristics of gold, but also take advantage of the opportunities of other assets to reduce the risk of the whole portfolio and become more stable. We should take the initiative to pay attention to those important factors, such as geopolitical changes, whether the central bank buys gold or not, and the trend of the US dollar. Also learn more professional knowledge about gold investment, improve your analytical ability, don't follow the trend, and make a rational and long-term investment plan.

6.4. Market Regulation and Infrastructure Level

We should establish a strong regulatory framework for the gold market, clearly stipulate the rights and obligations of market participants, and at the same time crack down on insider trading, false advertising, price manipulation and other irregularities to ensure fair, just and transparent trading. We will strengthen infrastructure construction, optimize the transaction settlement process, improve market liquidity, reduce transaction costs and improve operational efficiency. It is also necessary to strengthen investor education, popularize gold investment knowledge and risk management strategies, and guide investors to make reasonable financial decisions. At the same time, the digital transformation plan will use technical means to improve regulatory efficiency and transaction convenience, and enhance market resilience and growth potential.

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