
| RESEARCH ARTICLE

Factors Affecting Gold Prices in Global Markets: Why is the Investment in Gold Safe?

Prof. Abedalfattah Zuhair Al-abedallat

Department of Banking and Finance, Faculty of Business and Finance. The World Islamic Sciences & Education University, P.O. Box 1101Amman, 11947, Jordan

Corresponding Author: Prof. Abedalfattah Zuhair Al-abedallat, **E-mail:** abedalfattah.alabedallat@wise.edu.jo

| ABSTRACT

The study aimed to analyze Factors affecting gold prices in global markets, and why is the investment in gold safe? The research method applied in this study is a literature review, the qualitative approach that was designed to delve into the problem of the study through journals. Secondary sources for the study were books, articles and agency reports. In this essay, the literature of the supply and demand of gold, interest rate on US bonds, inflation and financial market uncertainty are critically reviewed. The study concluded that: Factors affecting the demand for gold and its price are: gold prices in foreign currencies set by central banks, particularly interest rates on the US dollar set by the Federal Reserve, the volume of demand for gold by central banks, due to the stability, and there are continued rise in global gold prices, despite the risks associated with investing in gold, such as price volatility, and Gold and the US dollar are seen as having an inverse relationship. The study concluded an investor is supposed to diversify his investments by dividing them into three sections, for example: the first section is gold, the second section is cash in banks, and the third section is diversified investments (real assets and financial assets).

| KEYWORDS

Gold, Safe Investment, International monetary system, Central bank, US Dollar, Geopolitical risks, Global markets

| ARTICLE INFORMATION

ACCEPTED: 01 June 2026

PUBLISHED: 29 June 2026

DOI: 10.32996/jhsss.2026.8.7.4

Introduction

Gold is known as the metal of wealth and money; it is a chemical element with the symbol Au, derived from its Latin name, Aurum. Today, gold is used in various personal, commercial, and industrial applications. It is also found naturally in several places, including within rocks and at the bottom of rivers.

Scarcity of resources is an economic problem, and the scarcest and most essential metals is the yellow metal (gold) compared to currencies and other assets. It has served as a hedge against inflation and has maintained its purchasing power. Many individuals invest in gold for various reasons, including diversifying their investments, as it offers a safe haven and the potential for significant gains in a short period.

Central banks (CB) also purchase this yellow metal to hedge against economic downturns and declines in real estate and stock markets. For example, the People's Bank of China purchased 12 tons of gold during a specific period, and the gold climbed to record levels above \$4,380 in October/November 2025, influenced by economic and geopolitical factors, attracting individual investors, institutions, and even central banks to buy more of the precious metal (**Al Jazeera,2023**).

Gold played essential role in the international monetary system (IMS) in previous centuries when currency rates (Exchange rate) were linked to the price of gold, and the fixed currency system ended in 1971 (president Nixon's decision to withdraw from Bretton Woods Agreement and end the relation between dollar and gold). Currently, central banks and countries around

the world are buying yellow Metal in large quantities, even though gold is not a fundamental element in IMS seek to hold large quantities of it as a hedge against economic instability(International Monetary Fund,2022).

Historically, the yellow metal was minted for use as currency for trade by Croesus, King of Lydia (a region in present-day Turkey), in 550 BC, Previously, the world's nations had the gold standard; now there is legal money(paper money).

Under the gold standard, there is freedom to convert the local currency of countries around the world into gold and vice versa, and based on that principle, anyone could present paper currency to the government and demand its equivalent value in gold (BBC News,2022).

Research Problem

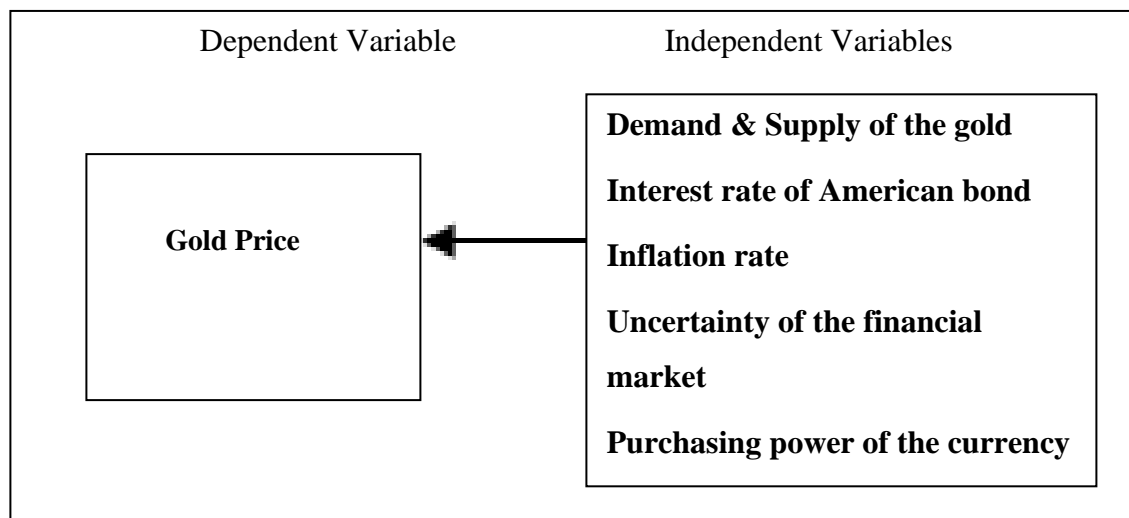
The problem addressed in this study can be explained through the continued rise in global gold prices, despite the risks associated with investing in gold, such as price volatility, the lack of regular returns, high storage and insurance costs, and the risk of fraud and counterfeiting, in addition to gold's susceptibility to economic and political factors, which is noteworthy. However, gold maintains its value during inflation and price fluctuations. Therefore, the viewpoint supporting gold asserts that it is a "strong hedge against instability.(GoldMarket,2025).

The study will answer the following questions:

1. What factors influence gold prices in global markets?
2. What is the relationship between gold and the US dollar?
3. What are the characteristics of gold as an investment?
4. What risks are associated with gold?
5. Is investing in gold a safe investment?

For studying the **Factors affecting gold prices in global markets**

Why is investment in gold safe. The following figure illustrates the study model:



Study Objectives

The study aims to analyze factors affecting gold prices in global markets, and why the investment in gold is safe; therefore ,the study aims to achieve a set of objectives, which are

- 1 . Understanding the importance of the yellow metal and its past and present uses, and the factors that influence the price of gold
2. Understanding why gold is considered a safe investment and the relationship between gold, the dollar, and oil.

3. Identifying the major gold-producing and gold-holding countries, the future of gold prices and whether they will continue to rise.

4. Identifying the characteristics of gold, and the risks associated with gold.

5. Providing important recommendations to the academic community, central banks, commercial and Islamic banks and investors regarding the reasons for the change in the price of the yellow metal.

The Importance of the Study

The importance of this study lies in examining the factors influencing gold demand, and it is observed that there is a growing demand for gold, reaching over \$5,100 per ounce. This is due to increasing demand from both countries and individuals, and the rise in gold prices to high levels. Various factors have contributed to this price increase, particularly the US Federal Reserve's move towards lowering interest rates on monetary policy instruments, leading investors to turn to gold as a safe haven. Therefore, this study will benefit scholars and researchers in this field, as there is a noticeable scarcity of studies addressing this fundamental asset. Furthermore, the study will benefit investors, given the significant trend among both individuals and companies to invest in this fundamental asset.

Literature Review

Concept

History of yellow metal (Gold)

- The yellow metal has been used globally for a long time, and currently legal money is used for transactions.
- **The Bretton Woods System**
- After World War II, the gold standard collapsed, and the world began searching for a new mechanism for the IMS, through conference in the US in 1944, the Bretton Woods system was drawn up and fixed the dollar to gold at the existing parity of US\$35 per ounce, and they were permitted to enable governments and central banks to stimulate the economy and prevent financial markets from experiencing problems. Finally, in August 1971, then-President Nixon announced that the United States (US) has stopped converting yellow metal into US dollars and vice versa on demand for other countries' central banks, due to the US trade deficit. Consequently, the Bretton Woods system collapsed, and gold was allowed to trade freely in global markets and international trade (International Monetary Fund, 2022).
- **Properties of Gold**
- Gold possesses several physical and chemical properties that make it a distinctive and highly sought-after metal in various fields. These properties include:
 - 1- Malleability and Formability: gold is one of the most malleable metals, allowing it to be easily shaped without losing its properties, and this makes it an excellent choice for use in various applications, including artistic creations.
 - 2- Luster: gold has an attractive luster, especially when polished, and it maintains this luster for extended periods, making it desirable in aesthetic applications such as jewelry and decorative items.
 - 3- Corrosion Resistance: gold possesses remarkable resistance to corrosion and oxidation. Therefore, a piece made of gold retains its integrity, shape, and external beauty regardless of the conditions it is exposed to.
 - 4- High Density: gold is one of the densest metals, a desirable property in the jewelry industry, as it gives it significant weight in a small size and a luxurious feel.
 - 5. Electrical Conductivity: gold has an excellent ability to conduct electricity and heat efficiently, making it one of the most sought-after elements in the electrical and industrial fields.
 - 6. Melting and Boiling Points: gold has a high melting and boiling point compared to other metals. This means it requires high temperatures to become liquid, making it resistant to thermal and environmental influences.
 - 7. Inertness: gold is considered an inert element, meaning it does not readily react with surrounding elements such as air, water, heat, and humidity. This makes it easy to store in various places and conditions.

- Due to these unique properties, gold has been used in various fields for a long time. It was used in making royal sarcophagi in different eras throughout history as a symbol of power and wealth. It was also used to decorate royal tombs and enhance the symbolic value of kings and queens. In ancient Egypt, it was used to make masks and sacred jewelry that accompanied kings in the afterlife and were considered an essential part of their beliefs about life after death. The ancient Egyptians also used gold for everyday purposes, such as crafting chariots and household tools.
- Gold was also used in medical fields, such as dentistry, for crowns and fillings, due to its malleability, ductility, resistance to corrosion, and inertness to environmental factors. It is also used in packaging medicines and medical treatments to preserve their effectiveness.
- Today, gold plays a vital role in modern industries and technologies, such as car manufacturing and electrical wiring, as well as in aerospace industries, such as coating the surfaces of satellites and spacecraft to protect them from outer space radiation. It is used in most modern devices, regardless of their type, because of its superior electrical conductivity and ability to maintain its functionality under various conditions, thus enhancing device quality.

Considering these properties and uses, we can say that gold is not merely a distinctive element, but a symbol of technological and cultural development and progress. The continued use of gold in modern industries today reflects the recognition of its value and unique properties, which make it essential in today's world and explain its high price and increasing global demand (Skynewsarabia,2017).

The relationship between Gold and the U.S Dollar

Gold is one of the oldest forms of currency; it has always been a staple in investment portfolios. There are several reasons gold has been back in favor, as gold will always be a store of value during inflationary times and the continuing conflicts in both the Middle East, Russia and Ukraine. The U.S. dollar plays an important role in driving gold prices in the market, but it's not the only factor; there are other factors

The US dollar is the global trade currency, and oil and gold are priced in US dollars. Therefore, if interest rates on the dollar decrease and the dollar's exchange rate against other currencies decreases as a result of the US Federal Reserve lowering interest rates, the demand for gold will increase because the dollar and gold are safe investments, thus the price of gold will rise.

There is no formal correlation between gold and the US dollar. However, traditionally, gold and the US dollar are seen as having an negative relationship; the price of yellow metal tends to rise when the \$ is weak, and vice versa. This is partly because gold is priced in US dollars on global markets, and therefore changes in the dollar can affect the price of yellow metal, and when the \$ is strong, yellow metal becomes more expensive for buyers using other currencies(CBC News,2024).

- **World Gold Council (WGC)**

It is a global organization specializing in the gold market, concerned with all its aspects from mining and investment to supply and demand, and it publishes research on the importance of investing in gold, and accessible gold supply chain, The company has team and experts enhances our understanding of gold's use cases and potential through research, analysis, commentary, and insightful analysis (World Gold Council,2025).

Global Gold demand and Gold supply

Gold holds sentimental, cultural, and financial value and is purchased by diverse individuals worldwide for various reasons, often influenced by national socio-cultural factors, local market conditions, and broader macroeconomic drivers.

yellow metal supply: The world's annual demand for yellow metal comes from mines (approximately 75%), with the remainder coming from recycling. The WGC's latest report indicated that global demand rose by 3% to 1,313 tons, and gold prices climbed to \$4,381 per ounce on October 20th, 2025. This increase was attributed to several factors, including US tariffs, geopolitical risks, and the search for safe-haven assets, Central banks purchases also rose by 10% to 220 tons in the third quarter of this year, Central banks have purchased 634 tons since the beginning of the year through September, and purchases for 2025 are projected to reach between 750 and 900 tons.

The United States holds the largest reserves at 8,133 tons, followed by Germany with 3,350 tons, Italy with 2452 and, France with 2,437 tons, Russia with 2,330 tons, and China with 2,304 tons(World Gold Council,2025).

- **Regional Diversity of Gold Demand**

Gold is a precious metal, and globally, people's purchase of the yellow metal is related to economic, social, and cultural factors, as well as market movements and inflation rates.

The most important countries that use gold are:

1- China: Gold is often given as a gift to younger family members, in Chinese society, there is a habit or tradition of gifting newborn babies small pieces of gold in the form of a gold necklace.

2-India: India is one of the largest gold markets, and increasing wealth is driving demand growth.

3-United States: The gold jewelry market in the United States has shifted away from large-scale gold sales and is experiencing a renaissance in the world of fine jewelry as gold jewelry brands grow.

4-Turkey: Gold plays an important role in Turkish society, especially among the upper (high) class (World Gold Council,2025).

Inflation & The purchasing power of a currency

Inflation is defined as the rise in the general price level in a given country over a period of time, usually a year, and is linked to the currency and its purchasing power (alfai&alwazni,2023,20), and the purchasing power of a currency is defined as the quantity of goods and services that can be bought with one unit of currency (Alnaser, Shamia,2015).

Factors affecting the demand for gold and its price in global markets:

1- Gold prices in foreign currencies are set by central banks, particularly interest rates on the US dollar set by the Federal Reserve.

2- The volume of demand for gold by central banks, especially given the efforts of China and Russia to reduce the dominance of the dollar.

3- The global demand for gold as a safe investment by many countries, instead of investing in the dollar and stocks, due to the stability or rise in gold prices.

4- The volume of global gold production (World Gold Council,2024)

What are the most important characteristics of gold as an investment?

Gold possesses several characteristics, which can be summarized as follows:

1- Tangible and independent asset: gold is a physical asset that cannot be printed or created by a central bank, making it independent of monetary policies that could erode the value of currencies.

2- Hedging against inflation: Historically, gold has proven its ability to maintain purchasing power in the long term against inflation.

3- Performance during crises: demand for gold often rises during periods of geopolitical and economic uncertainty, as investors seek a safe and reliable asset.

4- High liquidity and global recognition: Gold can be easily bought and sold anywhere in the world, making it a highly liquid asset (Roya. News.2024).

Risks inherent volatility of the yellow metal: Gold is not always expected to rise in price; its price can fall. For example, during the 2008 global of Investing in Gold:

1- During the financial crisis, the price of gold rose, but later fell due to banks' need for liquidity.

2- External factors affecting gold: Gold is affected by many factors, including inflation. If prices rise, the price of gold rises, and if interest rates fall, the price of gold will rise. Conversely, if interest rates on bonds, especially US bonds, rise, the price of gold falls, and geopolitical risks significantly impact yellow metal prices.

3- In the event of a stock market crash, many investors turn to gold, but is all investment in gold truly safe?

4- Insurance and storage restrictions.

If gold is stored at home, the investor may be exposed to the risk of theft. Therefore, they may resort to insuring their gold with insurance companies that impose specific and stringent storage conditions, in addition to the annual financial cost.

5- Risks related to product quality and authenticity. Investing in gold may expose an investor to the risk of counterfeiting. Therefore, an investor can purchase a fake gold bar, and detecting this without specialized equipment can be extremely difficult.

6- The need for expertise in these investments: investing in gold requires a good understanding of the markets, technical analysis, and sound risk management (Goldmarket,2024).

Previous Studies

Investing in yellow metal with the aim of reducing risk compared to other investments, especially in foreign currencies (the US dollar and convertible currencies), suffers from a lack of scientific research, and there are many scientific studies in the field of investing in gold, including the following:

Sulistiyani et al. (2024) examine how the investment in gold is determined by examining the planned behavior and social learning theories; the model used incorporated locus of control as an intermediate condition. The study findings revealed the existence of both direct and indirect effects of the variables of personal selling and financial literacy on the locus of control and gold investment decision. The online customer review did not indirectly or directly affect the variable. Moreover, locus of control means that financial literacy directly and indirectly affects investment decisions.

Ding et al. (2023) explore the working of the triangle of the US dollar, oil, and gold on global inflation and discuss its disadvantages. Investors will also buy gold for its hedging effects. In the triangular US dollar, oil and gold model global inflation dampens monetary policies.

Ramesh et al. (2022) studied the impact of macroeconomic factors (gold reserves, inflation, interest rates, GDP and fiscal deficit) on price of gold in India. The results of this study indicated that GDP and gold reserves exert a significant independent effect on the price of gold, whereas inflation, fiscal deficits, and interest rates have no appreciable statistical significance.

Shah et al.(2022) aimed to study the relationship between the GBP/USD rate and Brent Oil prices (dependent variables) and the dollar exchange rate (independent variable), the relationship between gold price and oil prices. The results of the study that the exchange rate of the US dollar against the British pound affects the supply and demand for oil and its prices globally, and there is correlation coefficient values are given a positive correlation between the variables of the study, and between the gold price and the Brent oil price, and the yellow metal price has effects on the price of Brent oil.

Afham et al. (2017) Investigate the ability of gold (safe investment) to hedge against the inflation rate in Malaysia by using time series analysis in both short and long terms, which is considered a popular subject among academic researchers. Moreover, there is the ability the gold's hedging in the long term.

Madani and Ftiti (2022) aimed to identify yellow metal's role as a low-risk investment tool against fluctuations in oil prices and foreign currencies, the findings of the study there are negative and significant average for all time scales between yellow metal and USD exchange rates, and this evidence the role of yellow metal as low-risk investment tool (safe asset) , and the study recommended to reduce risk the investors should invest in gold in any portfolio.

Medan et al. (2020) investigated and analyzed the causal relationship between the price of an oil barrel (independent variable) and the price of an ounce of gold (dependent variable), the research concluded that the relationship between the two prices is an indirect relationship controlled by a combination of factors: interest rates, global inflation rates and the exchange rate of the US dollar in the international market.

Research Methodology

The research method applied in this study is a literature review, the qualitative approach that was designed to delve into the problem of the study through journals. Secondary sources for the study were books, articles and agency reports. In this essay, the literature of the supply and demand of gold, interest rate on US bonds, inflation and financial market uncertainty are critically reviewed.

Results and Recommendations:

This study discussed the factors affecting gold prices in global markets, and why the investment in gold is safe? .It concluded the following results and recommendations:

Results

1-Yellow metal has played a significant role in the IMS in previous centuries when currency rates (Exchange rate) were linked to the price of gold, and the fixed currency system ended in 1971 (President Nixon's decision to withdraw from Bretton Woods Agreement and end the relation between the dollar and gold).

2- Currently, central banks and countries around the world are buying yellow Metal in large quantities, even though gold is not a fundamental element in IMS around the world seek to hold large quantities of it as a hedge against economic instability, and declines in real estate and stock markets.

3- Scarcity of resources is an economic problem, and the scarcest and most essential metals is the yellow metal (gold) compared to currencies and other assets, and it has served as a hedge against inflation and has maintained its purchasing power. Many investors invest in gold for various reasons, including diversifying their investments, as it offers a safe haven and the potential for significant gains in a short period.

4-There is continued rise in global gold prices, despite the risks associated with investing in gold, such as price volatility, the lack of regular returns, high storage and insurance costs, and the risk of fraud and counterfeiting, in addition to gold's susceptibility to economic and political factors, which is noteworthy. However, gold maintains its value during inflation and price fluctuations. Therefore, the viewpoint supporting gold asserts that it is a "strong hedge against instability

5-The US dollar is the global trade currency, and oil and gold are priced in US dollars. Therefore, if interest rates on the dollar decrease and the dollar's exchange rate against other currencies decreases as a result of the US Federal Reserve lowering interest rates, the demand for gold will increase because the dollar and gold are safe investments, thus the price of gold will rise.

- 6-Gold and the US dollar are seen as having an inverse relationship, that is, the price of gold tends to rise when the dollar is weak, and vice versa. This is partly because gold is priced in US dollars on global markets, and therefore changes in the dollar can affect the price of gold. When the dollar is strong, gold becomes more expensive for buyers using other currencies

7- Gold is a precious metal, and globally, people's purchase of the yellow metal is related to economic, social, and cultural factors, as well as market movements and inflation rates, and the most important countries that use gold are :China ,India ,United States, and Turkey.

8-Factors affecting the demand for gold and its price are: gold prices in foreign currencies set by central banks, particularly interest rates on the US dollar set by the Federal Reserve, the volume of demand for gold by central banks, the global demand for gold as a safe investment by many countries, instead of investing in the dollar and stocks, due to the stability or rise in gold prices ,and the volume of global gold production.

9-The most important characteristics of gold as an investment are :Tangible and independent asset, hedging against inflation ,Performance during crises ,and high liquidity and global recognition.

10-Risks of investing in gold are: the inherent volatility of the yellow metal, external factors affecting gold, insurance and storage restrictions , risks related to product quality and authenticity, and the need for expertise in these investments.

Recommendations:

1- It is preferable for central banks to hold gold reserves as part of their foreign currency reserves.

2- An investor is supposed to diversify his investments by dividing them into three sections, for example: the first section is gold, the second section is cash in banks, and the third section is diversified investments (real assets and financial assets).

3- In the event of rising inflation rates or increased uncertainty and geopolitical risks, it is preferable to direct investment towards gold.

4-If the price of gold rises, the investor should sell gold to realize capital gains.

5-When investing in gold, it's best to buy gold coins because selling them is easier and doesn't incur high manufacturing fees, thus generating profits.

References

- [1] Afham ,K.,M.,Law,SSaini,A.,(2017).Is gold investment a safe haven or a hedge for the Malaysian inflation ? , *International Journal of Business and Society*, 18 (1),pp 51-66.
- [2] Alnaser,M,Alshamia,(2015),*Principles of Microeconomics*, Dar Al-Amal Publishing, page 301.
- [3] Alrfai,A.,Alwazni,K,(2023). *Principles of Macroeconomics*, Dar Wael Publishing, p247.
- [4] Ding,y.,Hu,y.,Zhang,z.,(2023). The impact of the triangular US dollar, oil, and gold model on global inflation, *APPLIED ECONOMICS LETTERS*,
- [5] <https://doi.org/10.1080/13504851.2023.2278591>
- [6] Madani,M.,A.,Ftiti.,Z.,(2022). Is gold a hedge or a safe have against oil and currency market movements? Arevisit using multifractal approach, *Annals of Operations Research* 313:367–400.
- [7] Medan,A.,Tergo,M.,Bomedin,N.,(2020).Measure and Analyze the Causal Relationship Between the Price of Oil Barrel and the Price of an Ounce of Gold During the Period (2005–2016),*Economic Bashair Journal* ,6(1),pp 522-540.
- [8] Ramesh Muthangi,R., Kumar.,S., Mohan,M.,(2022). Impact Of Macroeconomic Variables On Gold Price In India: An Empirical Examination, *SPECIALUSIS UGDYMAS* ,1 (43).
- [9] Shaho, M., W., Hozan, K., H., Muhammed, A.,K.,(2022).An Approach To Study The Effects of GBP/USD Exchange Rate and Gold Prices on Brent Oil Prices Using Autoregressive Distributed Lag (ARDL), *Kurdistan Journal of Applied Research (KJAR)*,7(2),pp:95-106.
- [10] Sulistiyani, E.,, Wahyuni,S., Dody Setyadi,D., Karnowahadi ,R.,(2024). Determinant of Gold Investment Decision in Z Generation: A Study of Planned Behavior and Social Learning Theory, *MANAGEMENT AND ACCOUNTING REVIEW*, 2024, 23(1) April, 498-514.
- [11] Youqiang Ding a a , Yufeng Hu a and Zhibin Zhang, Ding,y.,Hu,y.,Zhang,z.,(2023). The impact of the triangular US dollar, oil, and gold model on global inflation, *APPLIED ECONOMICS LETTERS*,
- [12] <https://doi.org/10.1080/13504851.2023.2278591>
- [13] Aljazeera(23/10/2025),All we need to invest in gold, <https://www.aljazeera.net/ebusiness>
- [14] BBC News,(2022),„Gold: What is its economic importance, and what factors control its prices?, <https://www.bbc.com>.
- [15] CBC news(2024), What is gold's relationship to the U.S. dollar?, <https://www-cbsnews-com.translate.goog/news>
- [16] GoldMarket,(2025), What are the risks associated with investing in gold?, <https://www.goldmarket.fr/ar/>
- [17] International Moneytery Fund,(2022), gold-in-the-imf, <https://www.imf.org/en/about/factsheets/sheets>.
- [18] Gold marker(2024), Risks of Investing in Gold, <https://www.goldmarket.fr/ar>.
- [19] Royanews(2024), Advantages of gold, <https://royanews.tv/news/362614>.
- [20] Skynewsarabia,(2017), Thousands of years later, scientists reveal the secret of gold's presence on Earth,<https://www.skynewsarabia.com/technology>.
- [21] World Gold Council,(2025),The glpbal demand , <https://www.gold.org/about-gold>
- [22] World Gold Council(2024), Global gold production reaches record highs, <https://www.gold.org/about-gold>, <https://attaqa.net>