

# Gold Resurgence: Central Banks, Market Turmoil, and the Unfolding Financial Paradigm

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Commodity  
Discovery  
Fund

## **Commodity Discovery Fund**

with its own researchers in Hong Kong and the US, the fund analyzed significant drilling programs worldwide to invest in the most successful exploration companies.

Soon after its inception, the Lehman crash occurred. During the recovery, the fund rose by over 300% within three years. The fund subsequently grew rapidly and reached assets under management (AUM) of 160 million euros. Since its launch in 2008, the fund achieved a (gross) annual return of over 70% four times. More than 75 small successful exploration companies in which the fund invested were acquired by larger mining companies seeking reserves.



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In the evolving landscape of global finance, an unobtrusive yet profound shift is occurring: the resurgence of gold in the world's monetary framework. This resurgence, though unannounced, has stemmed from a nexus of factors. Chief among these is the diminishing trust in the US dollar following the freezing of Russian foreign exchange reserves post the Ukrainian invasion, compelling central banks to increase their gold reserves.

The recent spike in interest rates has led to substantial losses for bondholders worldwide, spanning commercial banks, asset managers, and international central banks. This erosion of value in government bonds, typically a cornerstone of central bank reserves, has forced European gold-holding central banks to consider utilizing their gold revaluation accounts to offset balance sheet losses, avoiding the need for government bailouts that



could undermine central bank autonomy. However, this recourse to gold, dormant in reserves for decades, bears consequential implications. It could undermine confidence in national currencies, potentially triggering a shift from fiduciary currencies to gold among emerging market central banks.

Simultaneously, central banks globally are grappling with unprecedented losses on their bond holdings, accumulated during years of quantitative easing efforts post the 2008 financial crisis. This period of market support led to substantial asset accumulation, which, through measures like quantitative tightening, has dwindled. The resultant losses on bond holdings, totaling hundreds of billions of dollars, have strained banks' balance sheets, leading to collapses and market turmoil.

The trend of accumulating gold has gained momentum, primarily driven by nations east of Germany, reacting to perceived currency debasement resulting from quantitative easing. China and Russia notably reduced their US Treasury holdings, emphasizing gold as a safer reserve asset amidst Western sanctions. This shift towards gold has also been observed in emerging economies like Brazil, India, and South Africa.

Even within the European Union, countries like Poland, the Czech Republic, and Hungary have bolstered their gold reserves significantly. This trend culminated in 2022, witnessing the highest central bank gold purchases since 1968.

Central banks, recognizing the revaluation potential of gold, view their gold revaluation accounts as a means to shore up balance sheets. However, the use of these reserves remains more psychological than formal due to technical and accounting intricacies.

The spotlight now rests on the United States, prompting speculation about potential explicit or implicit gold revaluation in the future. Such a move would mark another pivotal stride in gold's reemergence onto the monetary stage. International market observers and central bankers are keenly attuned to potential developments, particularly post a looming presidential election, that could further cement gold's role in the global financial landscape.

Willem Middelkoop, a member of the OMFIF Advisory Board and the founder of the Dutch-based Commodity Discovery Fund, has played a significant role in the exploration and investment landscape. The Commodity Discovery Fund, launched in 2008, weathered the Lehman crash shortly after its inception and demonstrated remarkable resilience by achieving over 300% growth within three years of the market recovery. With assets under management (AUM) reaching 160 million euros, the fund has consistently delivered a gross annual return of over 70% four times, investing in successful exploration companies that were later acquired by larger mining entities.

Middelkoop observes a subtle yet impactful shift in the global financial landscape, marked by the resurgence of gold in the world's monetary framework. The catalysts behind this revival include diminishing trust in the US dollar, triggered by the freezing of Russian foreign exchange reserves post the Ukrainian invasion, leading central banks to increase their gold reserves. The recent spike in interest rates has caused substantial losses for bondholders worldwide, prompting European gold-holding central banks to consider leveraging their gold revaluation accounts to offset balance sheet losses and avoid government bailouts.