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Gold: what central-bank buying means for mining equities

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Key takeaways

- Recent data shows central banks have returned to the gold market in force.
- If the gold price settles around current levels, gold mining will remain very profitable.
- With gold companies showing capital discipline, we see potential for gold stocks to re-rate back towards historical valuation levels.

We learned over the summer that central banks accumulated a net 289 tonnes of gold in the three months to end-June 2026. That was a record for Q2, a 62% year-on-year increase and more than five times Q1's central-bank net gold demand, according to the World Gold Council. These datapoints matter because they challenge a narrative that had taken hold earlier in the year: that central banks were retreating from accumulating gold, selling reserves to fund more pressing needs as the Hormuz shipping corridor closed and energy prices spiked.

A reversal or slowdown of central-bank gold purchasing would weaken one of the pillars supporting the gold price. But the Q2 data tells a different story, with Poland adding 51 tonnes of gold, China adding 33 tonnes and Uzbekistan, Kazakhstan and Jordan also major net acquirers. BMO analysis[1] suggests that the central-bank holdings of China (a key actor in the global gold market) could already be above 5,200 tonnes, more than double the official figure, with another c.25,000 tonnes accumulated by the People's Republic in jewellery, bars and coins since its founding in 1949. That adds up to about 13% of all the above-ground gold in the world.

[1] BMO, 'Gold: What China Wants', July 2026.

More to come

China alone drives one-third of annual gold demand, so its intentions matter for the market. While its current monthly additions are relatively modest compared to its history of gold accumulation, China's continued buying underscores "the strategic nature of its gold programme"[2], a key aim of which is to bolster the RMB in the global economy. It has been estimated that the People's Bank of China has about five more years of buying at current prices to match the US's level of gold reserves and likely wants to go beyond that as it seeks to establish a gold trading hub to rival the current West-dominated market centred in London and New York.

China may be the largest buyer, but other nations also appear set to continue accumulating gold. Ever since Western governments froze Russian US dollar assets following the war in Ukraine, there has been a strong incentive to 'de-dollarise' reserves, a goal that is being achieved in part by holding more of the precious metal. Gold's average share of central bank reserves has risen from 14% to 25% in just two years, though the increase partly reflects price moves. There are other reasons for central banks to hold gold: as well as being essentially unsanctionable, it is extremely liquid and tends to act as a long-term inflation hedge, hence promoting confidence in their currencies.

In short, we learned this summer that central banks are not turning away from gold, but they are price sensitive. January's record high of almost US$5,600/ounce clearly deterred some, but at prices between US$4,000-5,000/ounce they are buyers. And yet the consensus is that the gold price is heading lower: the average price forecast among analysts at major financial institutions is US$3,890 in 2030[3].

Implications for gold equities

If there is a floor under gold prices near current levels for the coming years, then gold mining will remain extremely profitable, and specifically more profitable than the consensus appears to expect. Under this scenario, and with many gold miners currently enjoying margins above 100%, gold equities look good value at today's prices, in our view.

There is a compelling argument that gold equities should re-rate. There is a precedent: 20 years ago, gold stocks traded at a premium to the wider market, on the view that gold was a safe-haven asset and an inflation hedge, and so its producers, whose valuations are tied to the precious metal, were worth paying up for. While gold continues to be seen as a safe-haven and a protection against rising prices, the valuation premium was lost in the 2010s, a period of poor capital-discipline in the gold sector and management missteps, when a number of miners overborrowed, overexpanded and overpaid for assets.

The industry has changed: capital discipline and cash returns to shareholders are guiding principles for many mining companies today. And if central-bank demand is indeed underwriting a US$4,000-5,000/oz price range for gold for the coming years, the case for a re-rating back towards those historical multiples starts to look even more credible.

Gold equities moved up sharply in August. But the c.30% gain over the month arguably just reflected gold stocks' typical leverage (of c.2x) to the gold price, not a re-rating. To us, that suggests further upside potential.

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[2] World Gold Council, 'Gold Demand Trends: Q2 2026', July 2026.

[3] Calculation includes forecasts on Bloomberg on 7 September 2026; excludes forecasts >180 days old.

Important information

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