

The Golden Shift: China's 2025 Gold Demand Transformation and Its Global Impact

Cyrus Cole, Wednesday, Jul 23, 2025 10:58 pm ET

In 2025, China's gold market is undergoing a seismic shift. What was once a market dominated by jewelry demand—a cultural cornerstone of wealth and status—is now pivoting toward investment-grade gold (bars and coins). This transition, driven by economic uncertainty, institutional mandates, and a broader de-dollarization strategy, has profound implications for global gold investors.



The Decline of Jewelry Demand: A Structural Shift

China's gold consumption in Q1 2025 fell by 5.96%, with jewelry demand plummeting 26.85% year-over-year. High gold prices, economic volatility, and shifting consumer priorities have made discretionary purchases like jewelry less appealing. For a country where gold jewelry has long been a symbol of affluence, this decline is not cyclical but structural.

Ask Aime: How will China's shift to investment-grade gold affect global gold markets?

The shift is emblematic of a broader trend: Chinese consumers are prioritizing tangible assets over luxury goods. As incomes stabilize and inflation concerns persist, gold bars and coins—seen as a hedge against economic turbulence—are gaining traction. This pivot reflects a growing awareness of gold's dual role as both a store of value and a financial safeguard.

Ask Aime: What's behind China's gold market shift?

Institutional Forces Accelerate the Transition

The most significant driver of this shift is the **China Banking and Insurance Regulatory Commission's (CBIRC) March 2025 mandate**, requiring insurance companies to allocate at least 1% of their assets to physical gold. With ¥32 trillion (\$4.5+ trillion) in insurance assets, this directive could unlock **hundreds of billions in gold purchases** over the next three years.

This mandate is part of a multi-decade strategy to reduce China's reliance on the U.S. dollar. By converting dollar-denominated assets (such as U.S. Treasuries) into physical gold, China is not only diversifying its reserves but also signaling a shift in global financial power. The insurance sector's demand alone could absorb **15–20% of annual global gold mine production**, creating a sustained, institutional-level tailwind for gold prices.

Implications for Global Gold Investors

- **Price Volatility and Upward Pressure:**
The physical gold market operates on tight margins. Institutional buyers like China's insurance sector can rapidly bid up prices, especially as premiums in Shanghai now exceed \$40–60 per ounce above London prices. Goldman Sachs +0.34% and JPMorgan +1.25% have already raised 2025 gold price targets to \$4,500–\$4,600 per ounce, citing China's structural demand.
- **Supply Chain Tightening:**
Annual global gold mine production has plateaued at 3,000–3,500 tonnes. China's insurance mandate alone could account for 210–250 tonnes annually, exacerbating supply constraints. This scarcity, combined with record central bank purchases (led by China and other emerging markets), is likely to deepen backwardation in futures markets and widen the gap between paper and physical gold.
- **Strategic Investment Opportunities:**
Investors should consider physical gold allocation as a core portfolio hedge, particularly in light of geopolitical risks and potential dollar devaluation. Gold ETFs and mining equities may also benefit, but direct ownership of bullion remains the most secure option.

The Bigger Picture: A New Monetary Order

China's shift to gold is not just about economics—it's about **monetary sovereignty**. In a world where digital assets and fiat currencies can be weaponized, physical gold remains an immutable store of value. This strategy is already reshaping global markets, with central banks and institutional investors following suit.

For global investors, the key takeaway is clear: **gold is no longer a niche asset**. It is a strategic reserve in a multipolar financial system. As China's demand for gold continues to rise, those who ignore this trend risk being left behind in a rapidly evolving landscape.

Investment Advice:

- **Diversify into physical gold:** Allocate 5–10% of portfolios to gold bars and coins, particularly in jurisdictions with strong gold-backed storage options.
- **Monitor premiums and backwardation:** Track premiums on the Shanghai Gold Exchange and COMEX backwardation as leading indicators of supply-demand imbalances.
- **Consider gold-linked equities and ETFs:** Companies with strong mine production and low leverage (e.g., Newmont -0.12%, Gold Fields) may offer upside potential.

In the end, China's golden shift is a masterclass in long-term financial strategy. For investors, the lesson is simple: **gold is no longer a luxury—it's a necessity**