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MONETARY POLICY

The Debasement Trade

Central banks are buying gold at a record pace while ETF investors hesitate

By Diego Molina · Mediavertical

Central banks bought a net 289 tonnes of gold in the second quarter of 2026 · more than the world's gold ETFs sold back in all of 2023 combined · while those same retail-facing ETFs recorded net redemptions over the same three months. That gap is not a hedge-fund fear trade. It is a referendum on which balance sheets sovereigns trust to hold their reserves.

The buying that matters is happening off the exchange

Central banks added 289 net tonnes of gold in Q2 2026, a 62% jump year-over-year and the strongest second quarter on record, on top of 244 net tonnes in Q1 · already above the five-year quarterly average. A record 45% of central banks surveyed by the World Gold Council say they plan to add to reserves over the next twelve months. Gold has now structurally overtaken U.S. Treasuries as the world's largest central bank reserve asset class for the first time in the modern era.

ETF investors are telling a different, more skittish story

The exchange-traded picture is more ambivalent. Gold ETFs recorded 45 tonnes of net redemptions in the same quarter that central banks bought 289 · even as prices held up. First-half 2026 flows were still net positive, roughly $8 billion, and a recent single month brought in $6.6 billion on its own. But that volatility is the point: 289 tonnes in one quarter is larger than the entire world's net ETF gold flows across all of 2023, a year that saw 244 tonnes of net outflows. Central bank demand operates on a different clock than retail flows, which move week to week with rate expectations.

This is a reserve-diversification signal, not a recession trade

Central banks are not buying gold because they expect an equity correction next quarter. They are buying because gold displacing Treasuries as the top reserve asset reflects a multi-year shift away from concentration in any single sovereign's debt. ETF flows, by contrast, react to short-term Fed-rate expectations and inflation prints · a trading behavior, not a reserve-diversification thesis. Reading the ETF tape as the market's verdict on gold gets the signal backwards; it is the smaller, noisier one.

What this means for allocators

The debasement thesis is being expressed by the buyers with multi-decade time horizons, not by retail investors hedging into fear. An allocator sizing a gold position off ETF flow momentum is reading the wrong data series. The more defensible approach is to size gold against currency-reserve and sovereign-debt-issuance trends · the same variables central banks are underwriting against · rather than treating it as a tactical hedge that only earns its place during equity drawdowns.

If the world's central banks are already treating gold as the senior reserve asset over Treasuries, should private allocators size their gold position against currency-debasement risk the way sovereigns do · rather than as a tactical hedge that only pays off during an equity selloff?