

Gold & Silver - the Herd awakes

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Having virtually ignored the move in Gold from \$1,500 an ounce to \$4,000 an ounce, the Financial media cannot go ten minutes without mentioning it at the moment.

Needless to say none of the talking heads on the various TV channels have a clue about this market but are forced to try and explain it usually with a bias that infers it is a bubble that has gone too far.

This is as far from reality as it gets - the bubble is in US Tech not in Gold & Silver which are in the early stages of multi-year re rating. The main driver of Gold is Asian central bank buying (mainly China) who have been switching US Treasury bonds into Gold to avoid a repeat of the Russian situation whereby their assets could be confiscated in any future dispute with the US (e.g. Taiwan).

At their peak China held about 1.1 Trillion US Treasury bonds (0- 5-year variety) - this is now down to about 700 bn and has been achieved by allowing bonds to redeem and reinvesting the money in Gold instead of new issue Treasury Bonds. The Gold is then shipped back to Shanghai where it cannot be confiscated. The Chinese are only a third of the way through this programme so any idea we are at a price peak is misplaced. Furthermore, this buying is not price sensitive - Bonds redeem & they buy Gold regardless of the current price (the fact that Gold has delivered much better returns than Treasury Bonds is a bonus - superior returns are not the main driver).

The problem the Chinese face is that now everyone else is jumping on the bandwagon making it not as easy to acquire the enormous amounts they require. Note the way the so-called resistance points (\$3,000 p/oz, \$3,500 p/oz, \$4,000 p/oz etc just get blown away without any realistic resistance - you get a bit of put option activity at these levels but the underlying strength is just too strong)

In my view, we have a lot further to go - Just wait until Silver takes over as the outperformer - then you can pencil in an even higher price percentage gains than so far seen in Gold

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Important Information

The views expressed in this document represents the views of the author at the time of preparation and should not be interpreted as investment advice

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