The European Central Bank (ECB) warns of a gold short squeeze in the euro area

Pretoria, 21 May 2025 – The European Central Bank (ECB), in its current Financial Stability Report, has warned of a potential "gold short squeeze" in the euro area. According to the report, gold derivatives amounting to approximately 1 trillion euros could pose a significant risk to the financial system. A sudden rise in the price of gold could force investors who are betting on falling prices to quickly close their positions, which would further accelerate the price increase.

What is a short squeeze in the gold market?

A "short squeeze" refers to a market situation in which many investors are betting on falling prices – for example, through derivatives – and are forced to close their positions in the event of sudden price increases. The result: *strong, rapid price jumps and massive pressure on the market.*
Should such a scenario occur in the gold market, banks, funds, and institutional investors could come under strain, as they are often unable to cover their obligations in physical gold.

Gold as real security

In this context, experts are increasingly recommending a return to physical gold. Unlike paper gold or speculative derivatives, physical gold is not dependent on counterparty risks. *It has intrinsic value, is tradable globally, and remains viable even in times of systemic crises.*
The current debate within the ECB illustrates how fragile artificial financial constructs surrounding precious metals can be – especially when the physical backing is missing.

Growing demand from institutional investors

Institutional demand for physical gold is already noticeably increasing in response to the recent warnings. Numerous family offices and asset managers are increasing their holdings or deliberately shifting positions from synthetic products to physically backed assets.
At the same time, gold mining projects with direct access to mining areas are gaining importance – particularly in resource-rich regions such as Central and East Africa.

Those who rely on physical gold reduce systemic risks

The ECB's warning should not incite panic but rather serve as a cautionary signal.
In a fragile global financial system, it is crucial to hold real assets that are not dependent on credit ratings, banks, or geopolitical conflicts.
Physical gold fulfills precisely this function.
For forward-looking investors, it remains the best choice for protection and wealth preservation in 2025.

Further information can be found in the full article:
https://www.ecb.europa.eu/press/financial-stability-publications/fsr/focus/2025/html/ecb.fsrbox202505_02~7f616fcd3f.en.html