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Gold in the Middle East—from gold consumer to gold investor

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Gold has ancient origins across the Middle East as a store of value and medium of exchange. Its earliest regional use cases trace back to the Mesopotamian civilisation and later the Arabian and Persian empires. Fast forward a couple of millennia and the yellow metal still symbolises wealth and prosperity. But its role is evolving beyond physical beauty and adornment to a core strategic asset.

As investors across the Gulf economies grapple with energy market volatility, currency debasement risks, and geopolitical fragmentation, gold is becoming a more relevant financial tool for portfolio managers and reserve managers alike. When it comes to gold investment, we may still be in the early innings of Middle Eastern demand growth. Local consumption continues to shift from gold jewellery to gold investment in the physical market. In financial allocations through ETFs, we could see a similar dynamic play out, as gold is called upon as a source of diversification, portfolio hedging and potential capital appreciation.

- Physical gold demand growth is favouring bar/coin accumulation versus jewellery[1]
- Gold is still underrepresented as a financial asset in the regional fund landscape[2]
- Central banks, including the UAE, have been accumulating gold holdings[3]

Culturally, gold is widely regarded as a naturally Shariah-compliant asset[4]. Given its status in Islamic finance as a ribawi[5] commodity whose intrinsic value derives from supply/demand fundamentals and physical ownership, rather than an interest-bearing financial claim, many gold ETFs are structured as Shariah-compliant financial products.

In this paper, we explore the role of gold and consumption trends specific to the Middle East. We also examine using gold in local portfolios and discuss the recent developments in official sector bullion holdings. Taken together, we expect gold consumption will continue to gain traction, with the Middle East shifting from a historical gold consumer to a new, more balanced, gold investor.

The structure and history of the Middle East gold marketplace

The Middle East region has long played a major role in the global gold market. Evidence of some of the earliest examples of gold mining and refining can be found in the region. Many of the jewellery fabrication techniques that are still used today, including lost-wax casting, cloisonné, champlevé and filigree, were developed locally. Gold's role as a status symbol came to the fore in ancient Egypt—where powerful and wealthy leaders used gold to signify status and aspiration. Over time, as gold came to be seen as valuable, it was used to transfer wealth between individuals, leading to some of the earliest examples of gold being used for trade and as a medium of exchange.

This history serves as a strong foundation for the region's gold industry today. The region is the third-largest consumer of gold in the world, after China and India.

In 2025, the World Gold Council estimates that more than 270 tonnes of gold were bought in the region (compared with 830t in China and 710t in India). About 44% of this was bars and coins, with the rest jewellery. But it isn't just a consuming region. The Middle East—and in particular the UAE—is a major processing centre for gold, serving markets around the world. The UAE is now the second-largest physical gold refining centre after Switzerland, exporting significant tonnage annually to its global client base.

While jewellery demand plays an important role in the Middle East, real growth may be in investment demand. Bar and coin demand was up 8% in the region last year and, as the regional economy grows and continues to attract high-net-worth investors (particularly in the Gulf countries), we can expect gold to play an increasing role as an investment asset.

Gold is physically consumed across the Middle East...

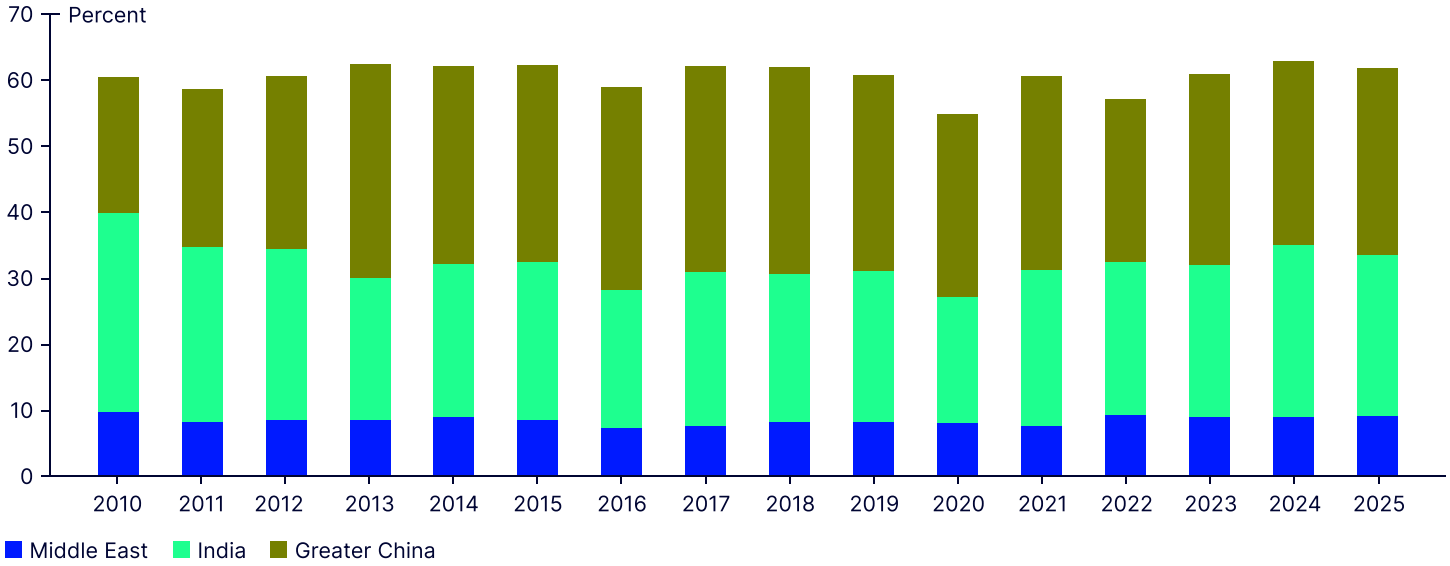
The Middle East is the third-leading physical consumer of gold in the world. For the past 15 years, Middle East retail gold consumption share has held fairly steady between 8–10% of world consumption (Figure 1). Only China and India represent larger pockets of physical demand for jewellery and bars/coins[6].

Physical gold in the Middle East is still mostly consumed in the form of jewellery. Similar to India and China, society in the Middle East shows an affinity for gold jewellery and gifting gold for auspicious occasions. But jewellery demand share has been falling as gold prices have been rising, particularly in recent years, which shows an internal shift in consumption towards investments in bullion bars/coins[7].

Consider that during the 2010–2012 gold price bull cycle, Middle East jewellery consumption was hovering north of ~70% of total physical demand, while bar and coin demand share stayed below 30%. During the 2023–2025 gold price bull cycle, the gold consumption basket has started to flip. Jewellery share has declined to a historically low 59%, while bullion bar/coin demand approached 41%. And this trend of growing bar/coin demand share of physical consumption began in 2017, well before the pandemic (Figure 2)[8].

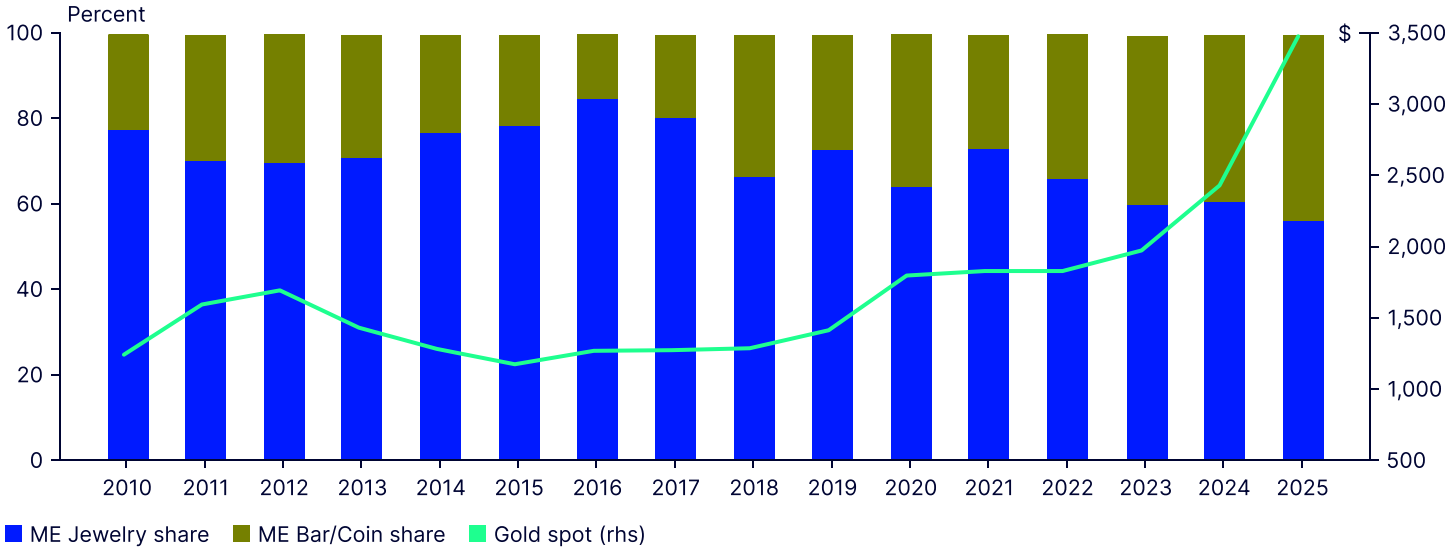
The change in the local consumption mix is important for two reasons. First, it shows that jewellery demand is more price elastic versus bar/coin demand. Second, it may suggest that gold is being used more as a physical investment and store of value locally[9]. But can that translate to gold financial fund and ETF holdings?

Figure 1: Consumer gold demand share in select regions (% of world)



Source: Metals Focus, Refinitiv GFMS, ICE Benchmark Administration, World Gold Council, State Street Investment Management (2010–2025).
Note: Data include jewellery and bar/coin demand.

Figure 2: Consumer gold demand composition in the Middle East



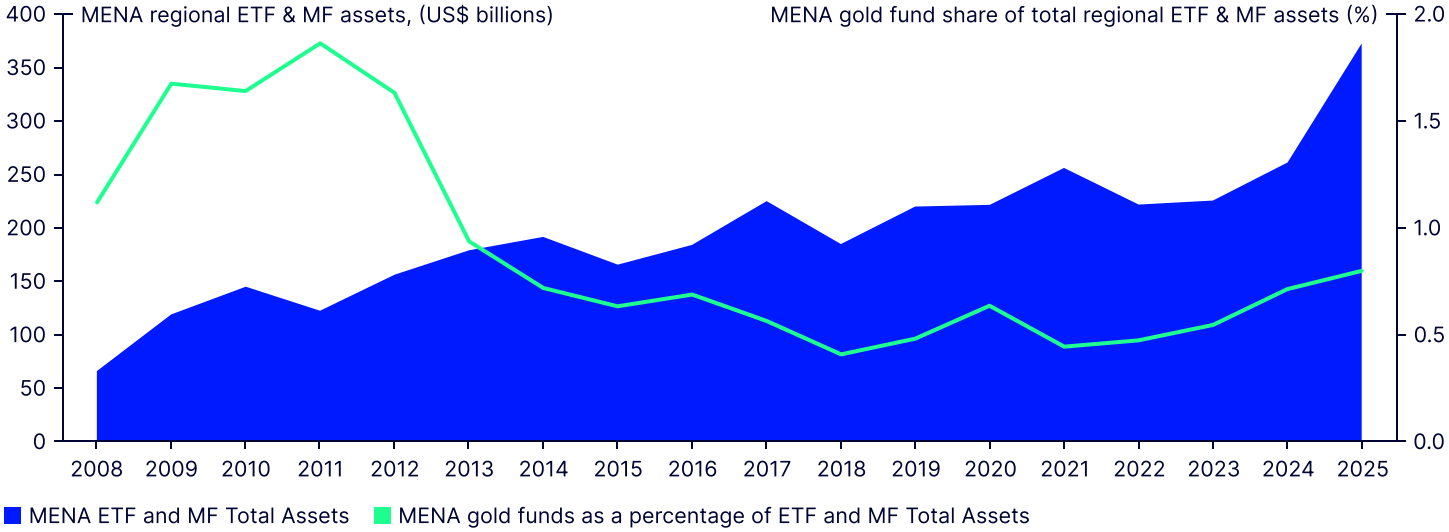
Source: Metals Focus, Refinitiv GFMS, ICE Benchmark Administration, World Gold Council, State Street Investment Management (2010–2025).
Note: Data include jewellery and bar/coin demand.

...but gold is still under-owned as a financial asset...

Interestingly, gold remains an under-owned financial portfolio asset in the region. Despite a ~65% rally in the spot value of gold in 2025, total gold fund holdings in the Middle East and Africa (MEA), as a percentage of total MEA ETF and mutual fund assets, stood at just 0.8% at the end of the calendar year. That is down from 1.7% during the 2009–2012 gold bull cycle and down 1.1 percentage points from the peak in 2011 (Figure 3)[10]. It is also below a recommended ~5–10% strategic portfolio allocation (see portfolio section).

With MEA regional ETF and mutual fund asset holdings approaching $400B[11], we think gold's share has scope to expand—especially in a post-pandemic market regime.

Figure 3: MEA region gold fund holdings as a share of total ETF and MF assets

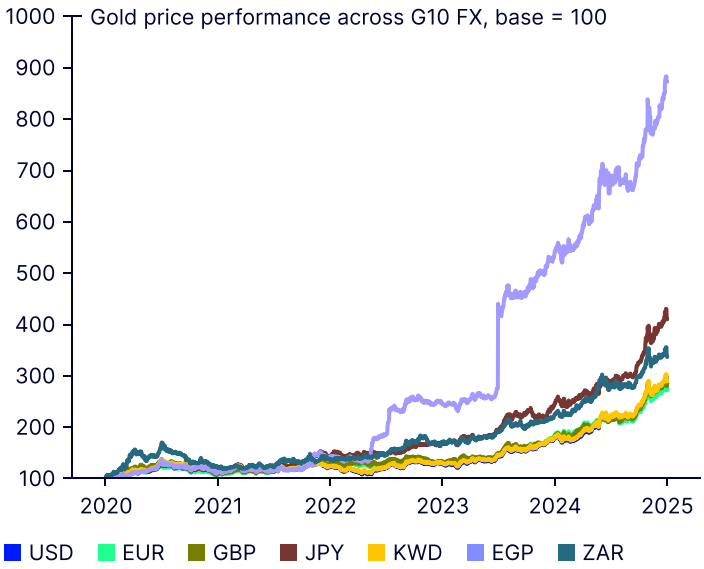


Source: Morningstar, World Gold Council, State Street Investment Management (2008–2025).

Alternative-Fiat is global and not just a US dollar story

Gold prices hit record levels in both nominal and real terms, across key currencies, in 2025[12]. That is no accident. Global debt levels have ballooned to $348T and the government share of that debt has also hit a record, representing nearly one-third of total world debt[13].

Figure 4: Gold prices across select G10 and EM currencies



Source: Bloomberg Financial L.P., State Street Investment Management (2020–2025).

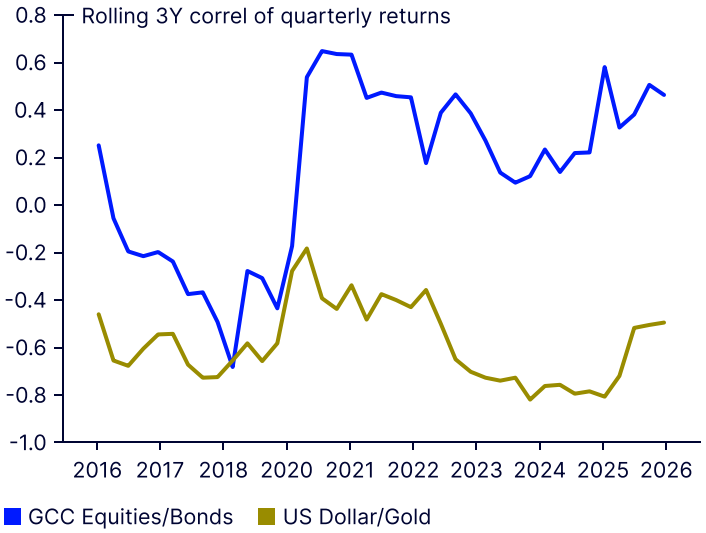
Elevated sovereign deficits, a sticky inflation impulse, and growing fiat currency supply have all received greater scrutiny in the post-Covid regime. This has prompted a re-rating of liquid hard asset alternatives such as gold. From 2020–2025, prices for the yellow metal increased nearly 3x against the US dollar—which is how many GCC economies peg their local FX basket[14]. However, gold price gains were not just at the expense of the greenback.

Over the same six-year window, gold is up nearly 3x in EUR and GBP terms, 4x in JPY terms and nearly 9x against the Egyptian pound[15]. As the next section on gold portfolio dynamics shows, though past performance is not indicative of future returns, Middle East investors could better balance their financial portfolios with a gold allocation.

Notably, as the US dollar/gold inverse relationship remains anchored, and reflects the role of gold as a currency devaluation hedge, the post-Covid spike in stock/bond correlations enhances the case for gold as a source of diversification in portfolio construction[16]. The global phenomenon of rising term premia, debt monetisation, and higher neutral rates suggests that investors may need to look beyond bonds for diversification. In addition, as financial markets become more integrated globally, the likelihood of volatility shocks stemming from exogenous factors increases. Here, too, gold could be a consideration.

Investors are demanding compensation for duration risk, and the floor for yields may be structurally higher for longer. In such a world, the benefits of gold as a lowly correlated asset that can in some market environments preserve and grow capital, and provide diversification to a traditional 60/40 or 70/30 portfolio, are likely to gain traction.

Figure 5: Rolling 3-year correlation of lognormal returns



Source: Bloomberg Financial L.P., S&P, State Street Investment Management (2013–2026).

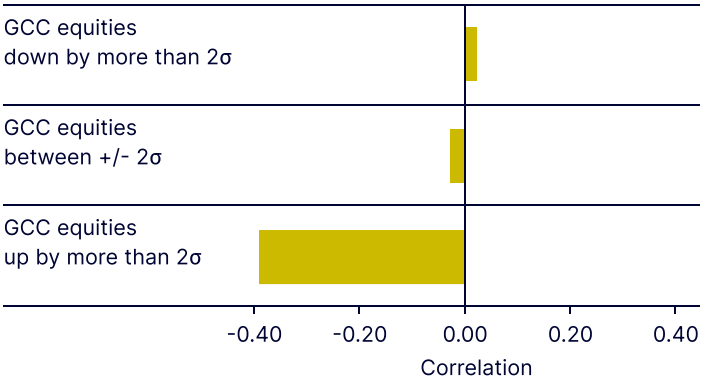
Portfolio impact

A hedge against market risk

Effective diversifiers are sometimes hard to find, especially for investors who are entrenched in traditional portfolio construction. In fact, many assets can become increasingly correlated as market uncertainty rises. Gold, however, often behaves differently. Its negative correlation to equities and other risk assets has historically increased as those assets have sold off (Figure 6)[17].

With few exceptions, gold has been particularly effective during times of market stress, generating positive returns in 7 of the 10 worst months of performance for the S&P GCC equity index (Figure 7) since the Global Financial Crisis. Of the remaining three months, gold outperformed the S&P GCC equity index in all three cases, reducing overall portfolio losses.

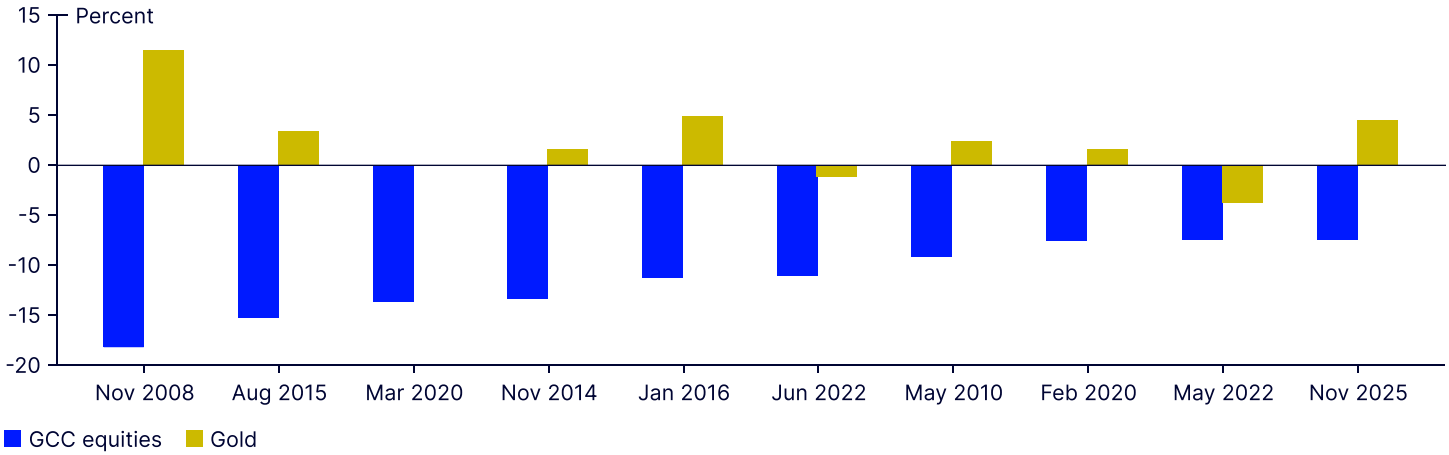
Figure 6: Gold's diversification benefits can improve at times of market stress
Correlation of GCC equities versus gold in various environments*



*Data to 31 March 2026. Correlations based on weekly returns in US dollars for 'stocks': S&P GCC Composite Shariah TR index and 'gold': LBMA Gold Price PM since 31 October 2008 due to availability. The top bar corresponds to the respective correlations when the S&P GCC index weekly returns rise by more than two standard deviations. The middle bar corresponds to the respective correlations when the S&P GCC index weekly returns are between two standard deviations (or 'σ'), while the bottom bar corresponds to the respective correlation when the S&P GCC index weekly returns fall by more than two standard deviations. The standard deviation for the S&P GCC is calculated using weekly returns over the full period.

Source: Bloomberg, ICE Benchmark Administration, World Gold Council.

Figure 7: Gold provides downside protection
GCC equities and gold returns during monthly periods of market stress*



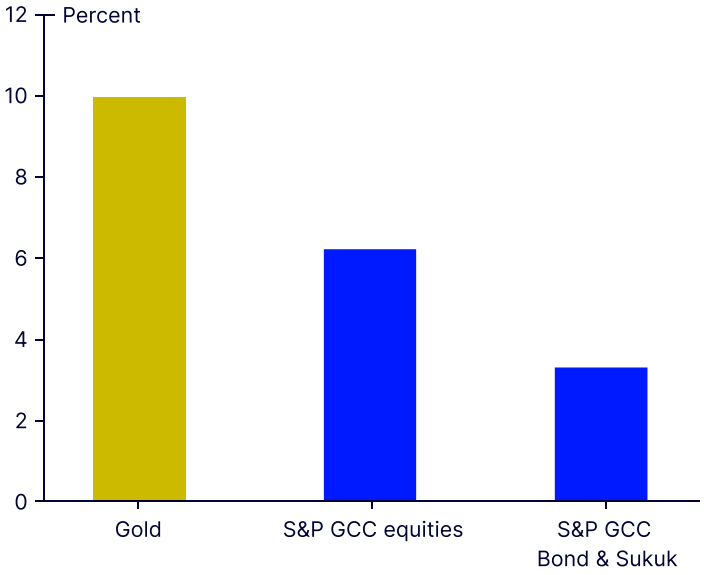
*Data from 31 October 2008 to 31 March 2026. Indices used: S&P GCC Composite Shariah Total Return, S&P GCC Bond & Sukuk Index Total Return and LBMA Gold Price PM USD.

Source: Bloomberg, ICE Benchmark Administration, World Gold Council.

Gold: a contributor to growth

Furthermore, investors have long considered gold a beneficial asset during periods of uncertainty. Yet, historically, gold has generated long-term positive returns in both expansionary and contractionary economic cycles, has outperformed in certain periods many major asset classes[17]. This is consistent with gold having diverse sources of end-user demand.

Figure 8: Gold has outperformed most broad-based portfolio components over the past decade



*Based on US dollar performance between 30 August 2013 and 31 March 2026 due to data availability.

Sources: Bloomberg, ICE Benchmark Administration, World Gold Council.

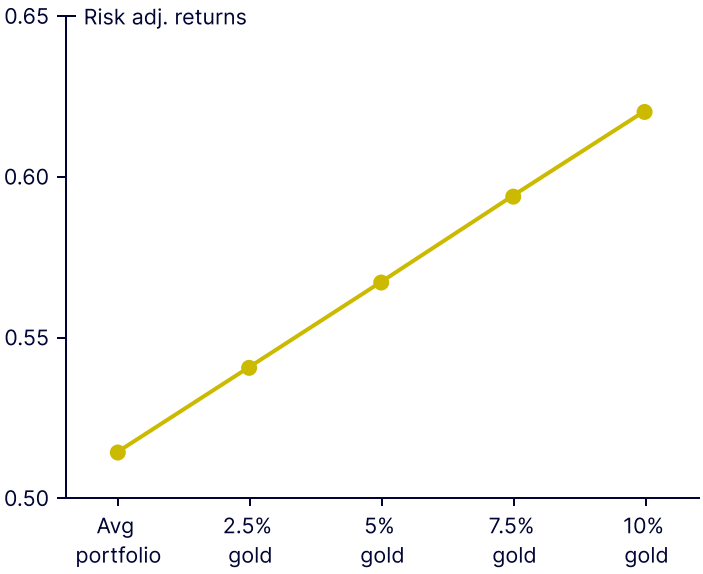
Impact from a gold allocation

Our analysis of investment performance over the past 3, 5, and 10 years emphasises gold's positive impact on portfolios. It shows that an average portfolio (60% GCC equities / 40% GCC bonds) would have achieved higher risk-adjusted returns and lower drawdowns if 2.5%, 5%, 7.5%, or 10% were allocated to gold.

In addition to a traditional back-testing historical analysis, a mean-variance optimisation analysis suggests that adding gold to the investment universe can result in a material enhancement to portfolio efficiency by shifting the efficient frontier upwards. For example, a portfolio with gold could deliver a higher return for the same level of risk, or the same return for a lower level of risk, all else equal.

We believe that strategically incorporating gold as a "diversifying alternative" can be a cornerstone of a well-constructed total portfolio. This approach offers the potential for diversification while not compromising on returns, ultimately leading to greater portfolio resilience and the ability to navigate evolving market dynamics[18]. As demonstrated in our analysis, gold can help mitigate the key risks faced by investors by providing diversification that works, reducing drawdowns, and enhancing risk-adjusted returns.

Figure 9: Adding gold would have increased risk-adjusted returns of a hypothetical portfolio
Risk-adjusted returns of a hypothetical portfolio with and without gold*



*Based on US dollar denominated performance between 30 August 2013 and 31 March 2026 due to data availability.

Sources: Bloomberg, ICE Benchmark Administration, World Gold Council.

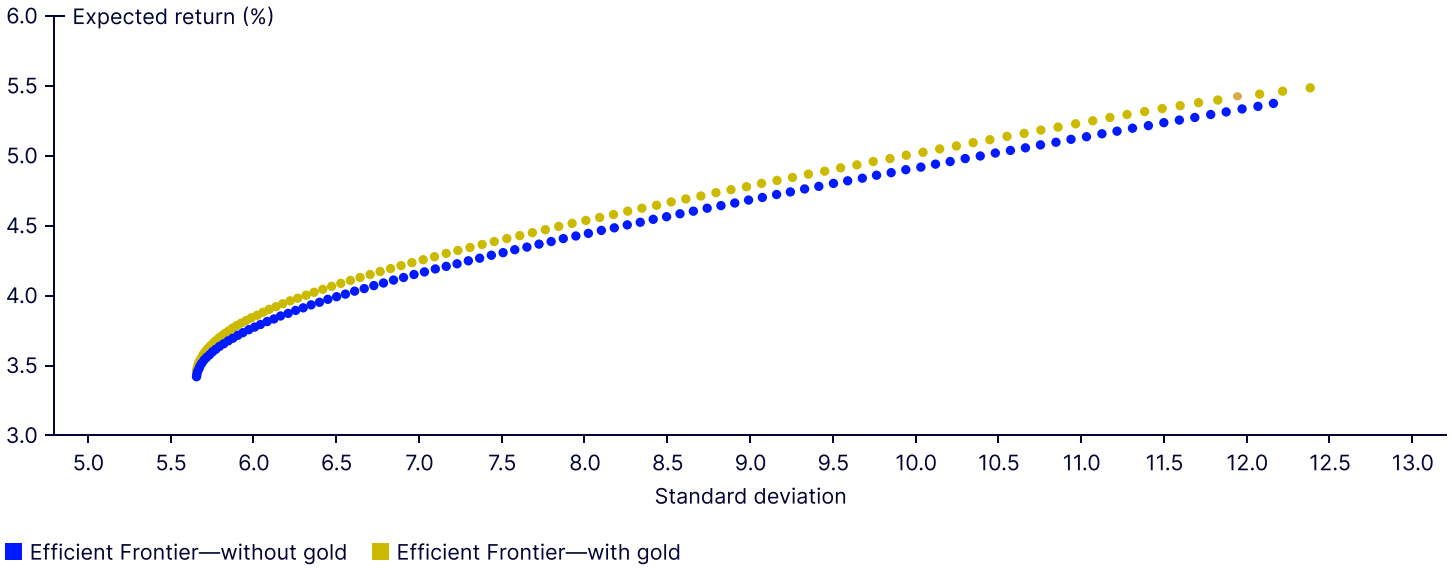
Figure 10: Gold has increased risk-adjusted returns while reducing portfolio volatility and maximum drawdowns
Comparison of a hypothetical portfolio and an equivalent portfolio with 5% gold over the past 3, 5, and 10 years

	3-year (%)		5-year (%)		10-year (%)	
	No gold	5% gold	No gold	5% gold	No gold	5% gold
Annualised returns	4.8	6.1	4.0	4.9	6.9	7.3
Annualised volatility	8.6	8.3	9.7	9.4	9.7	9.3
Reward to risk	55.9	73.3	41.1	51.9	71.1	78.5
Maximum drawdown	-15.6	-14.6	-15.6	-14.8	-22.6	-21.3

*As of 31 March 2026.

Source: Bloomberg, ICE Benchmark Administration, World Gold Council.

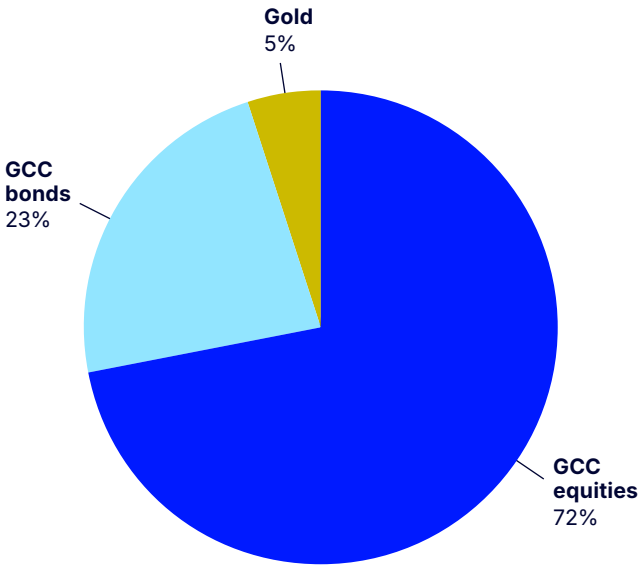
Figure 11: Efficient frontier with and without gold*



*Based on monthly USD total returns from 30 August 2013 and 31 March 2026. Assets include: S&P GCC Composite Shariah Total Return, S&P GCC Bond & Sukuk Index Total Return and LBMA Gold Price PM USD. Analysis based on a resampled optimisation methodology by Portfolio Visualizer to mitigate the impact of input estimate errors.

Sources: Bloomberg, ICE Benchmark Administration, Portfolio Visualizer, World Gold Council.

Figure 12: Maximum Sharpe Ratio Portfolio



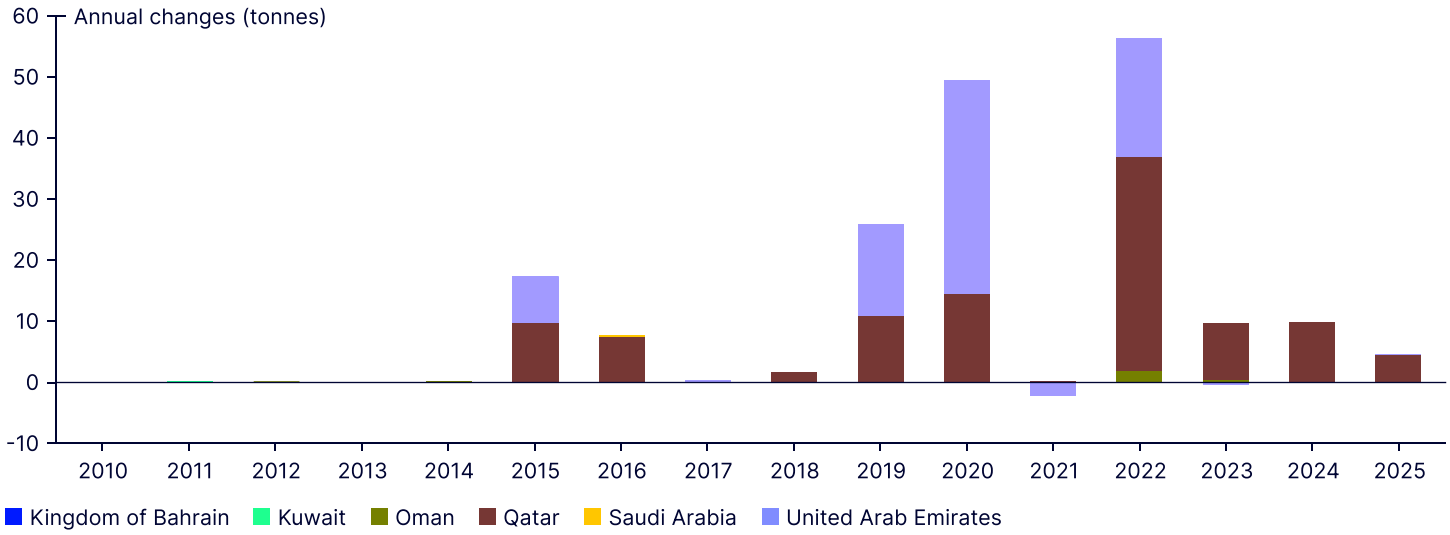
*Based on monthly USD total returns from 30 August 2013 and 31 March 2026. Assets include: S&P GCC Composite Shariah Total Return, S&P GCC Bond & Sukuk Index Total Return and LBMA Gold Price PM USD. Analysis based on a resampled optimisation methodology by Portfolio Visualizer to mitigate the impact of input estimate errors.

Sources: Bloomberg, ICE Benchmark Administration, Portfolio Visualizer, World Gold Council.

Official sector behaviour and trends

Official institutions in the Middle East are themselves looking to gold as part of their reserve diversification strategies. Central bank bullion buying, and the acceleration of those purchases since 2022, is a key factor in gold's strength in recent years. The reasons for this increased appetite among emerging market central banks for greater gold reserves are multifaceted: diversification; hedging against geopolitical fragmentation and sanctions risk; gold's performance during periods of crisis; and gold having no credit risk in physical form. GCC central banks have been a key part of this trend, particularly those in Qatar and the UAE.

Figure 13: MEA central bank purchases have increased since the post-Global Financial Crisis economic recovery



*As of 31 December 20025.

Source: IMF, World Gold Council.

Conclusion

As the Middle East navigates a more complex macro and investment landscape—shaped by structurally higher global interest rates, persistent geopolitical uncertainty and the constraints of US dollar-anchored monetary regimes—gold's role is evolving from a deeply rooted cultural asset to a strategic portfolio allocation. While physical demand continues to reflect long-standing traditions of wealth preservation, the growing shift towards bars, coins and financial instruments highlights a broader reassessment of gold's function on balance sheets. At a time when traditional diversification levers are proving less reliable and correlations across risk assets remain elevated, gold offers Middle Eastern investors—private and official alike—a liquid, Shariah-aligned, and politically neutral store of value with demonstrable diversification benefits. With financial allocations still modest relative to global peers, the region appears early in its transition from historical gold consumer to a more balanced gold investor, suggesting meaningful scope for gold to play a larger role in resilient, future-ready portfolios.

Endnotes

1 World Gold Council as of January 31, 2026.

2 Morningstar, State Street Investment Management as of December 31, 2025.

3 World Gold Council as of December 31, 2025.

4 Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) as of March 31, 2026.

5 Ribawi items are certain commodities that comply with Islamic law (e.g. precious metals, wheat, etc.) that trigger strict rules against interest and unequal exchanges in trading.

6 World Gold Council, State Street Investment Management as of January 31, 2026.

7 World Gold Council, State Street Investment Management as of January 31, 2026.

8 World Gold Council, State Street Investment Management as of January 31, 2026.

9 State Street Investment Management as of January 31, 2026.

10 Morningstar, State Street Investment Management as of December 31, 2025.

11 Morningstar, State Street Investment Management as of December 31, 2025.

12 Bloomberg Financial L.P., State Street Investment Management as of December 31, 2025.

13 Institute for International Finance, State Street Investment Management as of October 31, 2025.

14 Bloomberg Financial L.P., State Street Investment Management as of December 31, 2025.

15 Bloomberg Financial L.P., State Street Investment Management as of December 31, 2025.

16 Bloomberg Financial L.P., State Street Investment Management as of December 31, 2025.

17 World Gold Council as of March 31, 2026.

18 World Gold Council as of March 31, 2026.

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