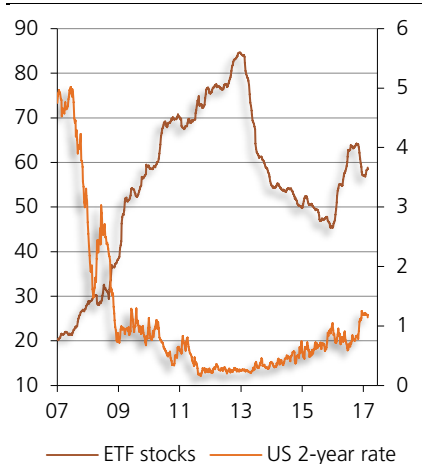


“Significant increases in inflation will ultimately increase the price of gold. Investment in gold now is insurance. It’s not for short-term gain, but for long-term protection.”

—Alan Greenspan, February 2017

Rising short-term yields have suppressed ETF gold demand

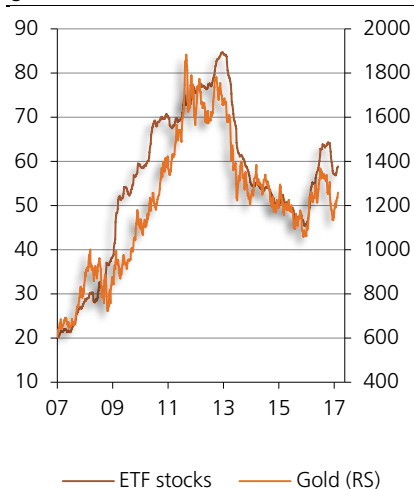
Gold ETF stock (million ounces) and US-2-year rate in percent



Source: Bloomberg.

Very close relation between gold price and gold ETF stock

Gold ETFs (million ounces) and price of gold (USD/oz)

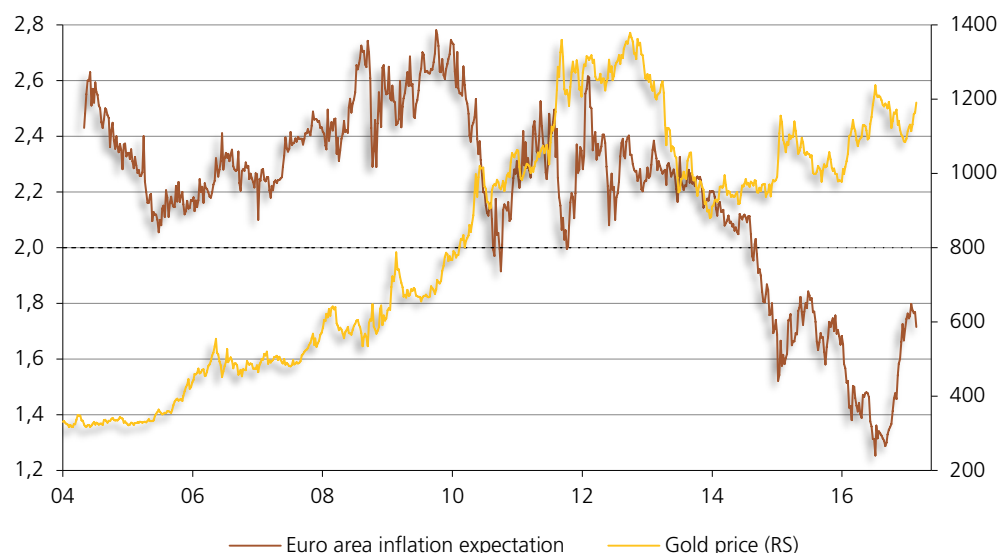


Source: Bloomberg.

Once people realize that inflation will be higher than promised by the central bank, they will start adjusting their contracts (wages, rents, etc.) to the higher-than-projected actual inflation. In this case, the central bank has to initiate another round of “surprise inflation” if it wants borrowers to benefit at the expense of savers. Such a policy would start an inflationary spiral.

Gold price climbs, inflation expectations remain subdued

Gold price (EUR/oz) and inflation expectations¹⁾



Source: Thomson Financial; own calculations. ¹⁾ Calculated from inflation indexed bonds.

However, so far, financial markets have not embraced the idea that, in the years to come, inflation in the Eurozone might turn out to be higher than on average 2 percent as projected by the ECB. In fact, they have remained fairly confident that the ECB will not deviate from its inflation promise. At the same time, however, the price of gold (EUR/oz) has returned to its upward trajectory.

Against this backdrop, those favoring gold may be arguing that the price of the yellow metal is already factoring in developments that have not become a concern for the majority of financial market participants yet. This may be so. In any case, it seems important to remind ourselves of what gold is all about. Gold is, from our viewpoint, first and foremost the ultimate means of payment.

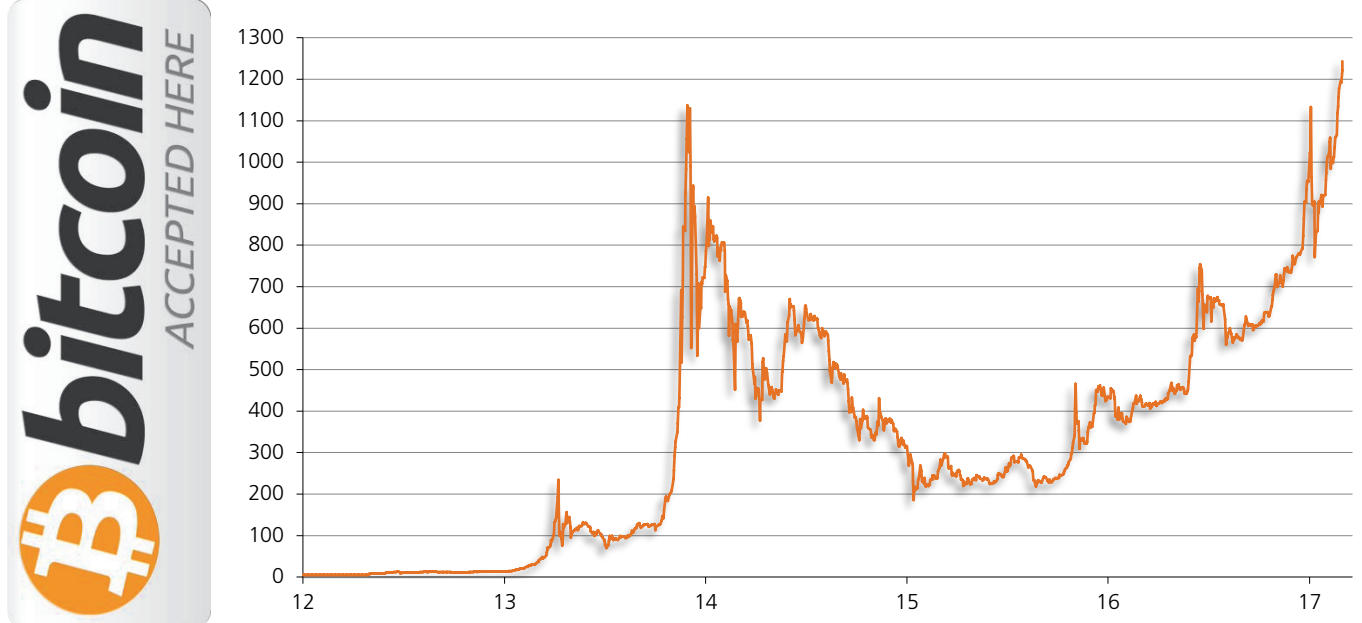
Gold is the hardest currency available, so to speak. It cannot be depreciated according to political expediency. What is more, gold is also an insurance against payment defaults. In contrast to bank deposits and bonds, Gold does not carry a credit risk. In fact, throughout history, gold has always been accepted without reference to any other third party guarantee.

In that sense, gold deserves, in principle, a place within the liquid assets held by the sensible investor. Moreover, we think that in the current environment, gold is an insurance that can be obtained at a reasonable price.¹ At its current price, it should have quite some upward potential. This holds particularly true for savers and investors from the Eurozone - which are well advised to hedge against monetary disorder further down the road.

¹ See in this context **Degussa Market Report, A Year Of Change, 20 January 2017**.

Bitcoin, performance of various asset classes

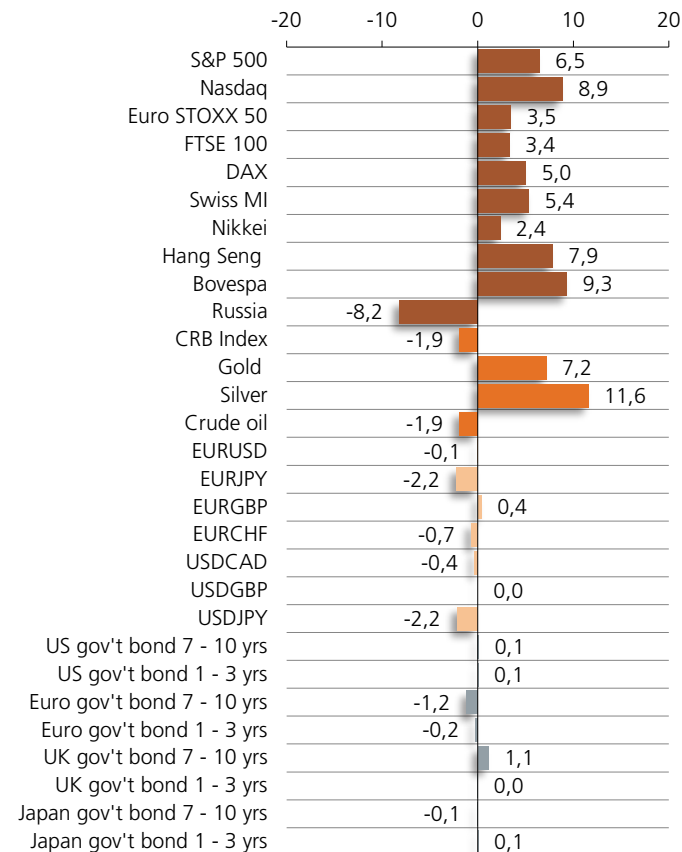
Bitcoin in US dollars



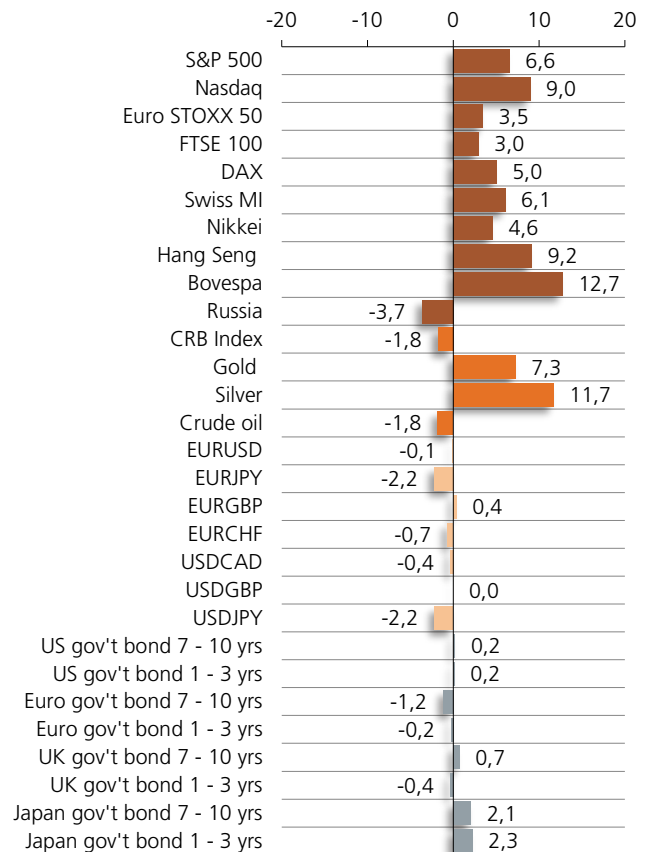
Source: Bloomberg

Performance of stocks, commodities, FX and bonds

(a) In national currencies



(b) In euros



Source: Bloomberg; own calculations

Articles in earlier issues of the *Degussa Market Report*

Issue	Content
3 March 2017	ECB Flirts With Higher Inflation. The Case For Gold
17 February 2017	Gold Gains Ground vis-a-vis the US-Dollar
3 February 2017	Gold Insures Against Risks Lurking in the Financial System
20 January 2017	The Year of Change
20 December 2016	Gold Rather Than Euro
25 November 2016	Mr Trump Loves Gold. Does Gold Love Him Back?
11 November 2016	Trump Election Puts Euro Under Pressure
28. October 2016	US Presidential Elections and the Price of Gold
14 October 2016	Amid Uncertainty, Opportunity Knocks
30 September 2016	On the Debt Ratio and the Price of Gold
16 September 2016	Central Banks May Choose Helicopter Money Over Negative Rates
2 September 2016	No return to "normal" interest rates
19 August 2016	Debt Monetized En Masse to Fend Off the Euro Crash?
5 August 2016	<i>No English issue due to summer break</i>
22 July 2016	The Demise of the Interest Rate – the Comeback of Gold Money
8 July 2016	Escaping the Euro Trap
24 June 2014	The Credit Cycle and the Price of Gold
10 June 2016	Savvy Investors Say Yes to Gold and Stocks Despite Prospective Fed Rate Hike
27 May 2016	Central Banks' Illusory Independence and the Price of Gold
13 May 2016	The Fight Against "Secular Stagnation" and Its Consequences for Gold and Silver Prices
29 April 2016	US Dollar's Dominance Challenged By Gold
15 April 2016	A World without Returns
1 April 2016	Helicopter Euros Hovering on the Horizon
18 March 2016	Gold and Stocks Protect Against 'Helicopter-Euros'

The Degussa Marktreport (German) and the Degussa Market Report (English) are available at:

www.degussa-goldhandel.de/infothek/marktreport/

