

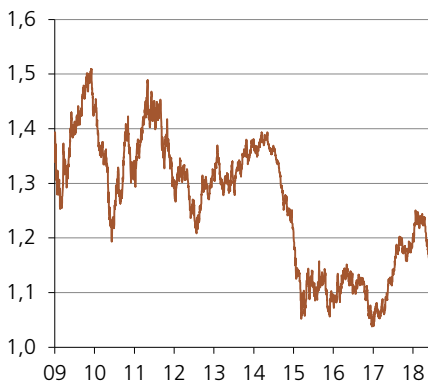
USD per ounce of gold



USD per ounce of silver



EURUSD



Source: Thomson Financial.

Precious metals prices				
	Actual (spot)	Change against (in percent):		
		2 W	3 M	12 M
I. In US-dollar				
Gold	1,301.4	-0.2	-2.4	6.7
Silver	16.9	1.5	3.2	6.3
Platinum	906.4	-0.3	-0.7	-1.1
Palladium	1,024.7	5.2	13.8	18.7
II. In euro				
Gold	1,099.8	-1.2	1.4	2.9
Silver	14.3	0.5	7.2	2.5
Platinum	766.0	-1.3	2.7	-4.2
Palladium	866.0	4.2	17.7	14.4
III. Gold price in other currencies				
JPY	143,124.0	0.4	0.4	3.7
CNY	8,313.4	0.0	-1.1	0.4
GBP	969.9	-0.5	2.6	2.5
INR	87,392.8	-2.0	1.0	11.2
RUB	80,814.5	0.6	4.3	10.6

Source: Thomson Reuters; own calculations.

OUR TOP ISSUES

This is a short summary of our fortnightly **Degussa Marktreport**.

Demand for Gold ETFs up Despite Higher Interest Rates

On 6 June 2018, the *World Gold Council* published data showing that in May 2018 the gold stock held by exchange-traded funds (ETFs) saw a 14.6-tonne gain compared to the previous month, bringing the total ETF gold stock to 2,482.2 tonnes. In the period from January to May this year, the inflow into gold ETFs amounted to 116.3 tonnes (see table below). While the ETF gold stock fell by 30 tonnes m/m in the US, it rose in Europe (+26 tonnes m/m), Asia (+21 tonnes m/m) and other regions of the world (+2 tonnes m/m).

Year-to-date (YTD) flows

As of 5/31/2018

	Total AUM (bn)	Δ tonnes	Flows (US\$m)	Flows (% AUM)
North America	54.4	50.5	2,258.6	4.16%
Europe	44.1	51.8	2,078.0	4.71%
Asia	4.2	19.0	820.3	19.44%
Other	1.6	-5.0	-227.6	-14.46%
Net inflows		161.5	6,838.5	6.56%
Net outflows		-45.2	-1,909.2	-1.83%
Total	104.3	116.3	4,929.3	4.73%

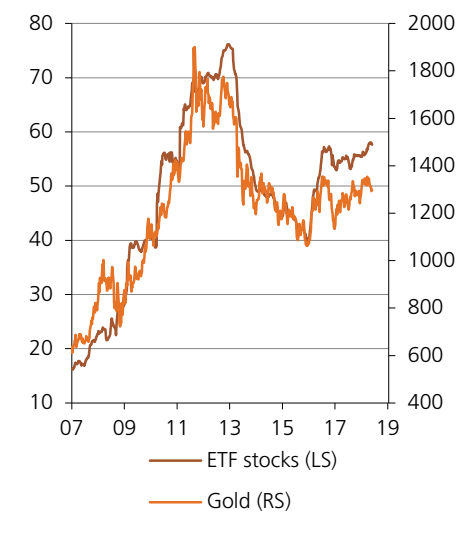
Source: World Gold Council, June 2018.

1 Gold ETFs stocks, interest rate and gold price

(a) ETFs gold stock (million ounces) and US 2-year interest rate in percent



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



Source: Thomson Financial.

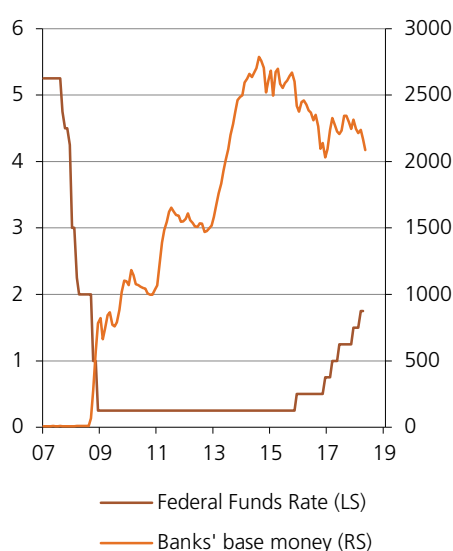
The developments as far as gold ETFs are concerned are of great interest for two reasons. *First*, institutional investors (such as hedge funds, investment funds, etc.) tend to take positions in the gold market by acquiring shares in gold

ETFs. Their purchases and selling activities often involve fairly large amounts in a comparatively short period of time, thereby affecting a great deal the price of gold in the physical market.

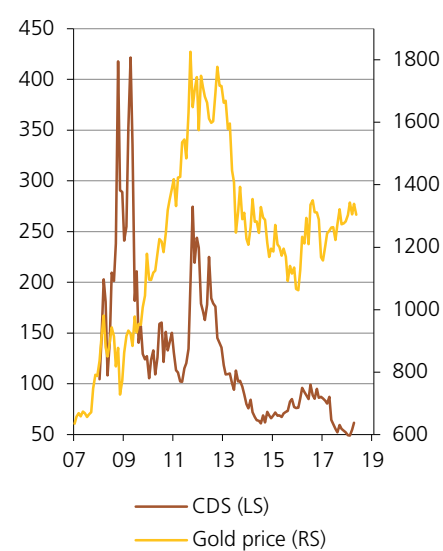
Second: The increase in the gold stock held by ETFs is taking place in an environment of rising US interest rates. Typically, the interest rate has a *negative* relation to the demand for gold – because holding gold does not yield any interest income, so that higher interest rates mean higher opportunity costs. Since the beginning of 2016, however, rising interest rates have been accompanied by increasing demand for shares of gold ETFs.

2 Tighter US monetary policy, default concerns and gold price

(a) US base money (US\$ bn) and Federal Funds Rate in percent⁽¹⁾



(b) Gold price (USD/oz) and CDS spread for 5-yr US bank bonds in basis points⁽²⁾



Source: Thomson Financial; own calculations. ⁽¹⁾ 2 year US short-term interest rate minus annual change in consumer prices.

What could be the explanation? The interest rate might not be the only factor determining the demand for shares in gold ETFs. Other factors can be expected to be at work as well. Perhaps most importantly, investors demand insurance against portfolio losses (losses from price declines and/or payment defaults). In general, higher interest rates are almost certainly accompanied with higher risks in the economic and financial system.

The reason is this: The current business cycle upswing and the substantial rise in asset prices across the board (we may even speak of "asset price inflation") have been initiated and fueled by extremely easy monetary policies on the part of central banks. If and when interest rates go up, the economies can be expected to slow down, and asset prices and valuation levels come under growing downward pressure.

The US central bank (Fed) – which takes a leading role in terms of influencing financial market conditions worldwide – has been rising its key interest rate since December 2015, and currently the Federal Funds Rate stands in a band of between 1.50 and 1.75 per cent. Simultaneously, the Fed is reducing the outstanding amount of base money (which it had increased through bond purchases in the wake of the 2008/2009 crisis).

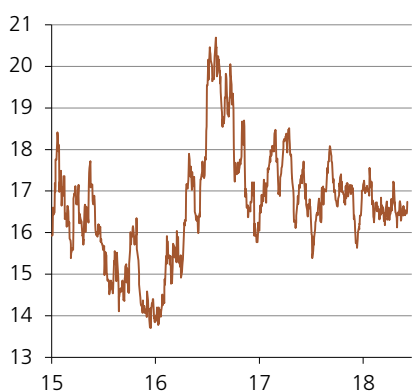
At the same time, however, credit default concerns have remained at record lows – while the price of gold has started trading upwards since the beginning of 2016. What could be the explanation? It might well be that financial market par-

Precious metal prices (USD/oz)

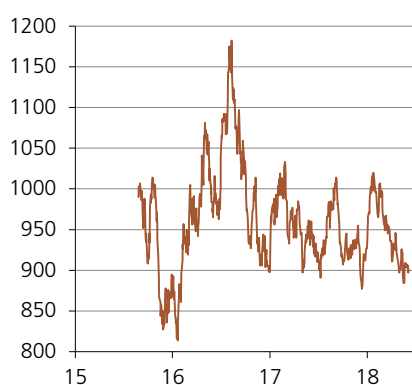
(a) Gold



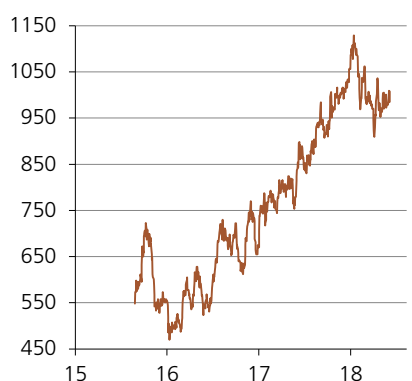
(b) Silver



(c) Platinum



(d) Palladium



ticipants expect the Fed to prevent another credit crisis by all means. That is, should a tighter monetary policy bring down the economy and financial markets, the Fed is expected to switch back to an easing policy.

If this is so, gold, as well as shares in gold ETFs, become attractive from an investor's point of view because gold provides its holder with two advantages: First, the purchasing power of gold cannot be debased by central banks running the printing press to prevent credit defaults on a grand scale. Second, gold does not carry a default, or counterparty, risk: Other than in the case of, for example, bank deposits and short-term debt instruments, the holder of gold is not exposed to the risk of losing investment amount or interest.

Having said that, in the current environment, gold appears to be valued for its inflation-protection properties. For the inflation risk becomes the "relevant" risk for the investor if and when central banks opt to keep bailing out financially ailing banks or even states by issuing new quantities of money in an effort to prevent another credit crisis. A final note: In light of current prices, gold appears to be an effective insurance with an upside value potential right now¹ – and this might be another factor that drives investor demand for gold ETFs.

Gold In Art



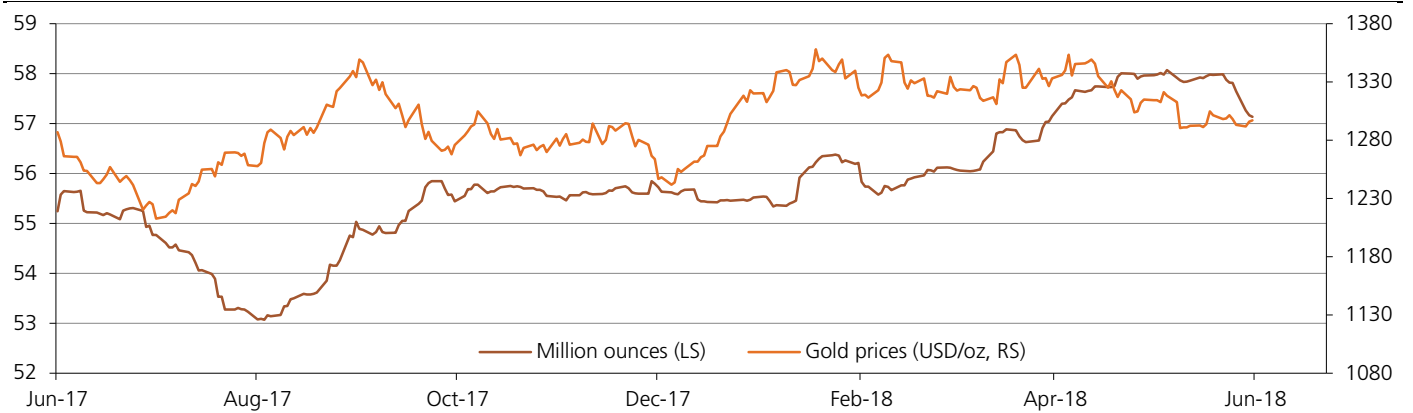
Nicolas Poussin, *The Adoration of the Golden Calf*

The leading classical French Baroque painter *Nicolas Poussin* (1594 – 1665) painted *The Adoration of the Golden Calf* between 1633 and 1634. It depicts the adoration of the golden calf by the Israelites, from chapter 32 of the Book of *Exodus*. The painting hangs in the National Gallery, London.

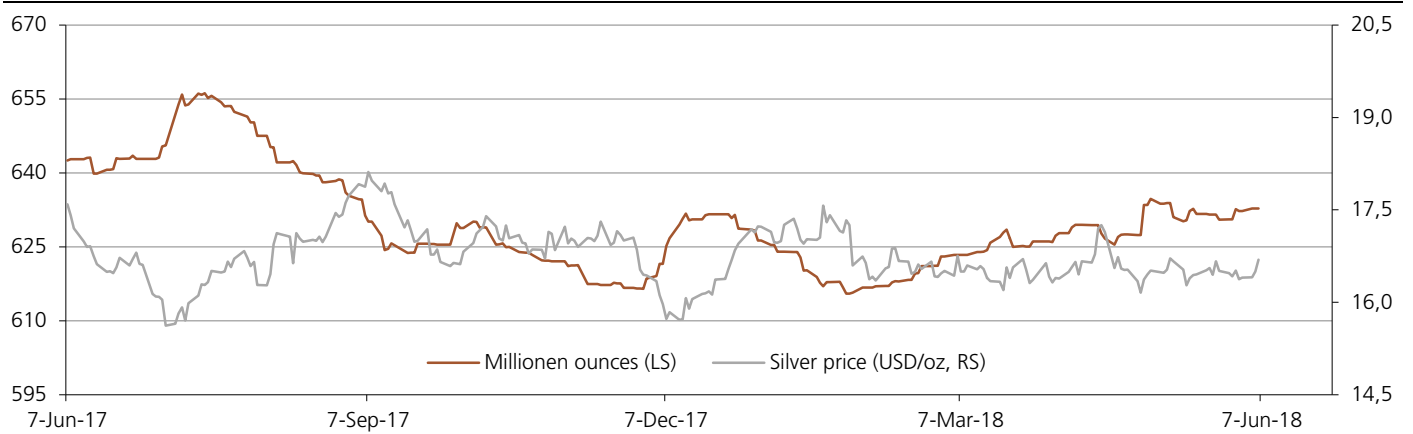
Dr Ruth Polleit Riechert, Art Historian (www.rpr-art.com).

Precious metals prices and ETF holdings

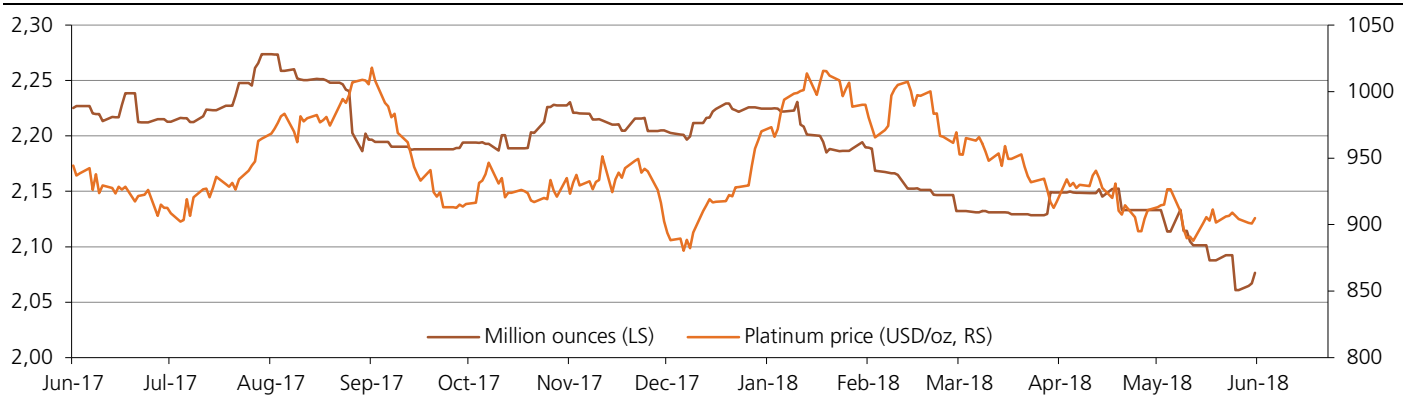
Gold ETFs (million ounces) and gold price (USD/oz)



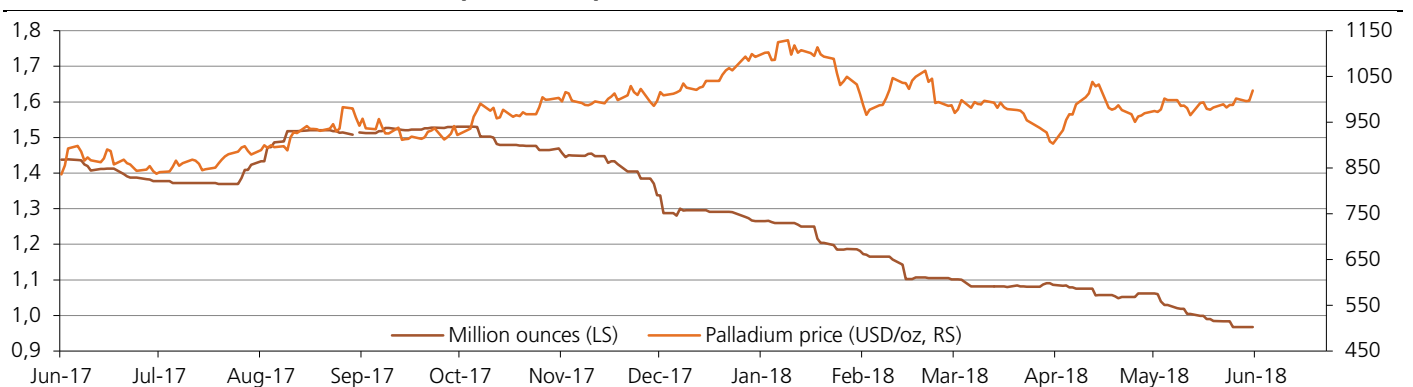
Silver ETFs (million ounces) and silver price (USD/oz)



Platinum ETFs (million ounces) and platinum price (USD/oz)



Palladium ETFs (million ounces) and palladium price (USD/oz)



Source: Thomson Financial.

Precious metals prices

In US-dollar

	Gold		Silver		Platinum		Palladium	
I. Actual		1301.3		16.9		906.7		1023.1
II. Gliding averages								
5 days		1298.4		16.5		902.8		995.6
10 days		1300.3		16.5		904.9		986.7
20 days		1300.0		16.5		904.1		987.4
50 days		1317.1		16.6		913.7		976.6
100 days		1324.3		16.6		946.6		999.5
200 days		1307.8		16.8		942.0		996.5
III. Bandwidths for 2018	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	1248	1472	16.0	21.0	936	1048	1033	1261
(1)	-4	13	-5	24	3	16	1	23
IV. Annual averages								
2014		1260		19.1		1382		800
2015		1163		15.7		1065		706
2016		1242		17.0		985		617
2017		1253		17.1		947		857

In Euro

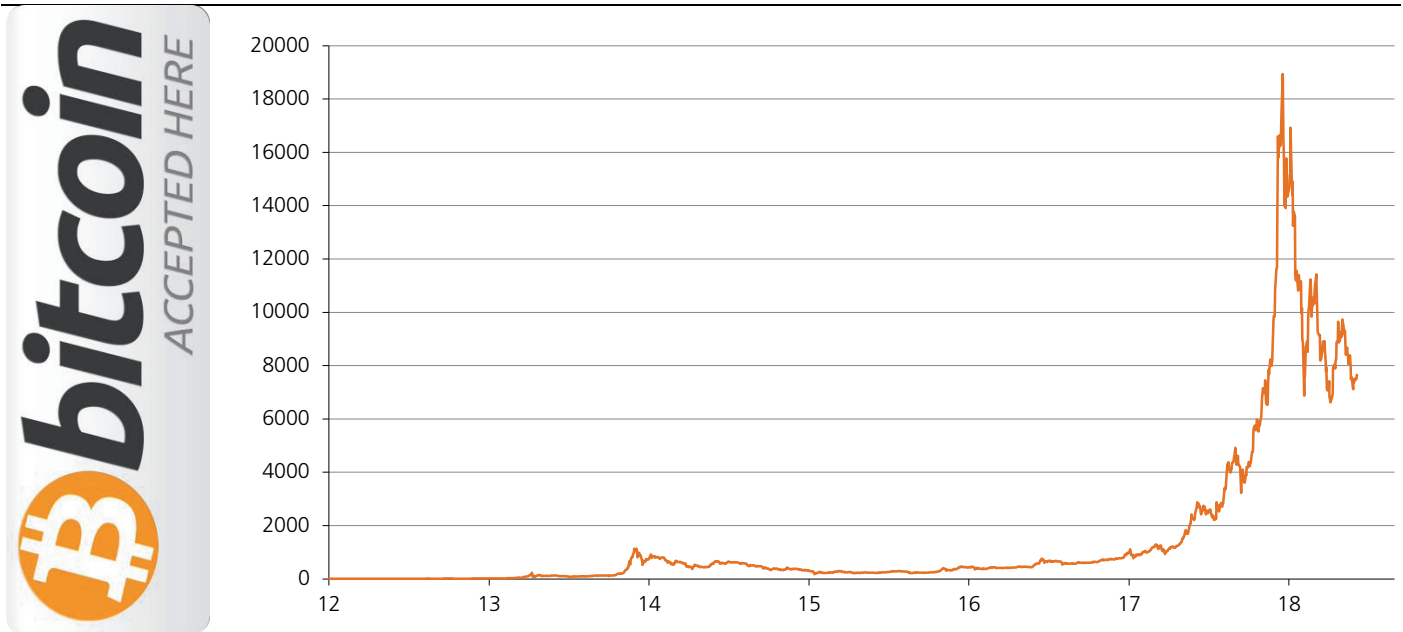
	Gold		Silver		Platinum		Palladium	
I. Actual		1099.8		14.2		766.3		864.6
II. Gliding averages								
5 days		1110.0		14.1		771.9		851.2
10 days		1114.7		14.2		775.7		845.8
20 days		1106.9		14.1		769.8		840.7
50 days		1096.6		13.8		760.8		813.5
100 days		1087.8		13.6		777.2		820.9
200 days		1088.9		14.0		784.3		829.9
III. Bandwidths for 2018	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
	1069.2	1260.5	13.7	18.0	801.7	897.9	884.5	1080.0
(1)	-3	15	-4	26	5	17	2	25
IV. Annual averages								
2014		945		14		1035		601
2015		1044		14		955		633
2016		1120		15		888		557
2017		1116		15		844		760

Source: Thomson Financial; own calculations and estimates.

(1) Estimated return against actual price in percent.

Bitcoin, performance of various asset classes

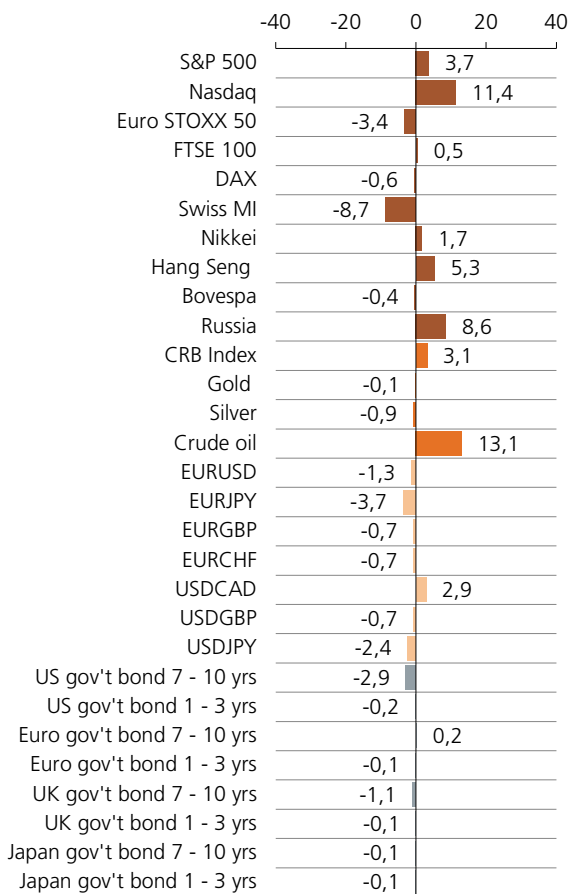
Bitcoin in US dollars



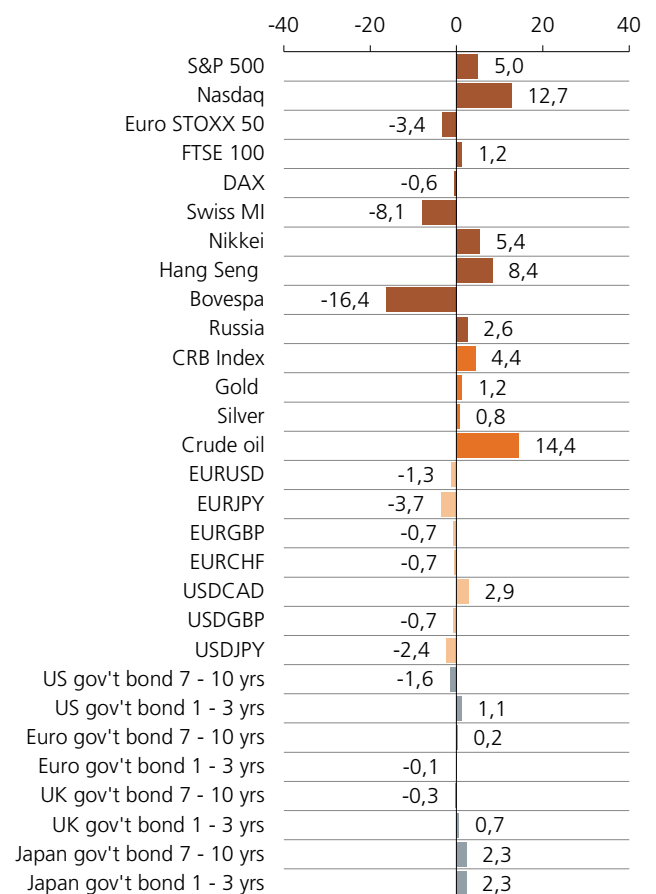
Source: Thomson Financial.

Performance of stocks, commodities, FX and bonds

(a) In national currencies



(b) In euro



Source: Thomson Financial; own calculations

Articles in earlier issues of the *Degussa Market Report*

Issue	Content
8 June 2018	Demand for Gold ETFs up Despite Higher Interest Rates
25 May 2018	Mind The Interest Rate
11 May 2018	Mr Buffett on Gold – Viewed Differently
27 April 2018	Moving Towards Higher Gold Prices
13 April 2018	The Risk of a Currency Crisis
29 March 2018	Walking the Tightrope
16 March 2018	Gold, Interest Rates, And Money
2 March 2018	Gold in Times of Boom and Bust
16 February 2018	The Fed Makes The Stock Market A Risky Place
2 February 2018	Central Banks Put a Safety Net Under Financial Markets
19 January 2018	Chances And Risks For Investors in 2018
21 December 2017	New Competition: Gold and Crypto Currencies Against Fiat-Monies
8 December 2017	It Is Just Another Inflationary Boom
24 November 2017	There Is, And Will Be More, Inflation
10 November 2017	Calm Markets: The Great Mystery
27 October 2017	The Interest Rate Becomes A “Crash Factor”
13 October 2017	The Great Complacency
29 September 2017	The German Election Outcome Might Turn Up The Heat On The Euro
15 September 2017	A Case for Gold in the Investment Portfolio
1 September 2017	On the Intrinsic Price of Gold
18 August 2017	Gold in Times of Boom and Bust
4 August 2017	The Underpriced Risk
21 July 2017	The Fed Remains on Course – to Trouble
7 July 2017	Gold And The Blockchain
23 June 2017	The Super-Bubble in Danger
9 June 2017	Trapped in Boom-and-Bust
26 May 2017	The Make-Believe World of Fiat Money
12 May 2017	The Fed Will Likely Chicken Out on Planned Rate Hikes
28 April 2017	Central Banks Will not Dare to Take Away the Punch Bowl
13 April 2017	The Gold Price Rise Tells Us: The Crisis Isn't Over Yet
31 March 2017	ECB Negative Interest Rate Policy Will Come to an End
17 March 2017	The Fed's Half-Hearted Attempt of Monetary Tightening
3 March 2017	ECB Flirts With Higher Inflation. The Case For Gold
17 February 2017	Gold Gains Ground vis-a-vis the US-Dollar
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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

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

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